



NATIONAL OCEANIC AND ATMOSPHERIC ADMINISTRATION

NOAA's Cost-Plus-Award- Fee and Award-Term Processes Need to Support Fees and Extensions

FINAL REPORT NO. OIG-12-027-A
MAY 18, 2012

U.S. Department of Commerce
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May 18, 2012

MEMORANDUM FOR: Mitchell J. Ross, Director
Acquisition and Grants Office
National Oceanic and Atmospheric Administration

FROM: Andrew Katsaros
Assistant Inspector General for Audit

SUBJECT: *NOAA's Cost-Plus-Award-Fee and Award-Term Processes*
Need to Support Fees and Extensions
Final Report No. OIG-12-027-A

We are providing our final audit report on the National Oceanic and Atmospheric Administration's (NOAA's) management of cost-plus-award-fee (CPAF) and cost-plus-award-term (CPAT) contracts. Our audit objectives were to determine whether rating and payment decisions were supported and whether NOAA effectively monitored award-fee and award-term plans and contractor performance. We assessed award-fee and award-term ratings and payments made by NOAA, based on documentation used to support them, and evaluated NOAA's guidance, payment structure, and evaluation criteria for the nine contracts we reviewed: four CPAF contracts, four CPAT contracts, and one contract with both award fees and terms.

NOAA should use the two types of contracts more effectively to encourage excellence in contractor performance. Often, evaluation documents were not consistently maintained by NOAA performance monitors or did not contain enough specific examples of good or bad contractor performance to justify award fees and award-term extensions. Also, award-fee and award-term plans developed by NOAA did not consistently and clearly contain payment structures or identify criteria for evaluations that encouraged contractors to excel. In addition, descriptions defining scores to rate contractor performance were subjective and unclear. Further, NOAA did not maintain documentation in the contract file justifying the use of these contract types as required by the Federal Acquisition Regulation. In some cases, the selection of a CPAF or CPAT contract type may have been questionable. Together these issues raise questions on whether NOAA had assurances that the use of CPAF or CPAT contracts was appropriate. Finally, the complete picture of NOAA's use of CPAF and CPAT contracts is unclear. Data reported in the Federal Procurement Data System-Next Generation and records maintained by NOAA on the use of CPAF and CPAT contracts were inaccurate and incomplete.

We have received your response to our draft report. Where appropriate, we have modified this final report based on this response. The formal NOAA response is included as appendix E. The final report will be posted on OIG's website pursuant to section 8L of the Inspector General Act of 1978, as amended.

In accordance with Department Administrative Order 213-5, within 60 days of the date of this memorandum, please provide us with an action plan that responds to all of the report recommendations. We appreciate the cooperation and courtesies extended to us by your staff during our audit. Please direct any inquiries regarding this report to me at (202) 482-7859 or Mark Zabarsky at (202) 482-3884.

Attachment

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Report In Brief

MAY 18, 2012

Background

As of June 2011, NOAA had nine active cost-plus-award-fee (CPAF) and cost-plus-award-term (CPAT) contracts, which provide financial incentives based on contractor performance. These contracts had a potential maximum value of approximately \$1.6 billion, including approximately \$87 million in available award-fee pools and about \$386 million in available award-term periods. While incentive contracts can encourage excellence in contractor performance, they can be burdensome to administer and require effective monitoring to ensure that contract dollars are spent wisely and that award fees and terms are justified based on contractor performance.

Why We Did This Review

In December 2007, the Office of Management and Budget's Office of Federal Procurement Policy issued guidance to chief acquisition officers and senior procurement executives to review and update their acquisition policies on the appropriate use of incentive contracts. In this audit, we assessed award-fee and award-term ratings and payments made by NOAA, based on documentation used to support them, and evaluated NOAA's award-fee and award-term guidance, payment structure, and evaluation criteria for nine incentive contracts: four CPAF contracts, four CPAT contracts, and one contract with both award fees and terms.

NATIONAL OCEANIC AND ATMOSPHERIC ADMINISTRATION

NOAA's Cost-Plus-Award-Fee and Award-Term Processes Need to Support Fees and Extensions

OIG-12-027-A

WHAT WE FOUND

NOAA gave contractors high ratings, resulting in substantial award fees or extended contract periods of performance, for eight of nine contracts. However, the ratings associated with four of these contracts lacked sufficient support to demonstrate that the contractor met or exceeded the award-fee or award-term evaluation criteria. As a result, approximately \$43.8 million was paid in award fees or contract extensions without proper justification. On some contracts, the performance monitors did not maintain documentation to support the ratings, and on other contracts, the examples and comments provided did not contain enough information to determine whether the ratings, award fees, and award terms were warranted. In addition, NOAA's award-fee payment structures provided little incentive for contractors to excel in executing their contracts. Also, weaknesses existed in the management of NOAA's CPAF and CPAT contracts.

WHAT WE RECOMMEND

We recommend that the Director of the NOAA Acquisition and Grants Office:

1. Require performance monitors to provide narrative comments that identify specific strengths, weaknesses, and deficiencies to support assigned ratings.
2. Develop award-fee and award-term incentive structures that encourage contractor excellence.
3. Update the performance evaluation plans for contracts DGI33E10CN0229 and DGI33E09CN0094 to add more measurable award-fee criteria.
4. Develop measurable and outcome-based criteria for assessing contractor performance for award fees and award-term extensions.
5. Require a cost-benefit analysis in decisions on CPAF and CPAT contracts.
6. Establish clear division of responsibility for the evaluation team and prohibit the same official from performing multiple roles.
7. Develop controls over the maintenance of contract files and contract data to ensure more immediate availability and completeness of documentation for contract actions.

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*COVER: Detail of fisheries pediment,
U.S. Department of Commerce headquarters,
by sculptor James Earle Fraser, 1934*

Introduction

As of June 2011, the National Oceanic and Atmospheric Administration (NOAA) had nine active cost-plus-award-fee (CPAF) and cost-plus-award-term (CPAT) contracts, which provide financial incentives based on contractor performance. These contracts have a potential maximum value of approximately \$1.6 billion, including approximately \$87 million in available award-fee pools and about \$386 million in available award-term periods. While incentive contracts can encourage excellence in contractor performance, they can be burdensome to administer and require effective monitoring to ensure contract dollars are spent wisely and that award fees and terms are justified based on contractor performance.

In December 2007, the Office of Management and Budget's (OMB's) Office of Federal Procurement Policy issued guidance¹ to chief acquisition officers and senior procurement executives to review and update their acquisition policies on the appropriate use of incentive contracts. In this audit, we reviewed award-fee and award-term ratings and payments made by NOAA, based on documentation used to support them, and evaluated NOAA's award-fee and award-term guidance, payment structure, and evaluation criteria for nine incentive contracts: four CPAF contracts, four CPAT contracts, and one contract with both award fees and terms.

We found that NOAA gave contractors high ratings, resulting in substantial award fees or extended contract periods of performance, for eight of the nine contracts.² However, we found that the ratings associated with award fees and award-term extensions

Award fee and award term justifications were not supported.

on four of these contracts lacked sufficient support to demonstrate that the contractor met or exceeded the award-fee or award-term evaluation criteria. As a result, approximately \$43.8 million was paid in award fees or contract extensions without proper justification, which we have identified as unsupported costs.³ On some of the contracts, the performance monitors⁴ did not maintain documentation to support the ratings, and on other contracts, where documented support was available, the examples and comments provided did not contain enough information to determine whether the ratings, award fees, and award terms were warranted.

Award fee payment structures did not provide incentives for contractors to excel.

Further, NOAA's award-fee payment structures provided little incentive for contractors to excel in executing their contracts. For example, all five CPAF contracts we reviewed allowed awards ranging from 50 percent to 70 percent of the award-fee pool to be paid for satisfactory performance. Additionally, NOAA's performance evaluation plans used broad, highly subjective criteria—such as “satisfactory

¹ OMB Memorandum, *Appropriate Use of Incentive Contracts*, December 4, 2007.

² For one contract, award fees were not paid to the contractor because an evaluation period was not completed.

³ An unsupported cost is a cost that is questioned by OIG because OIG found that at the time of the audit such cost was not supported by adequate documentation. 5 U.S.C. App. 3 § 5(f)(2).

⁴ Performance monitors provide the continuous evaluation of the contractor's performance in specific assigned areas of responsibility. This often-daily oversight is the foundation of the award-fee and award-term evaluation processes. Performance monitors are specialists intimately familiar with their assigned areas of cognizance.

quality,” “marginal quality,” and “unsatisfactory quality”—making it difficult for performance monitors to understand and consistently apply the ratings. Revising performance evaluation plans for two specific satellite contracts alone to include measurable award-fee criteria would put approximately \$61 million in expected award fees for these contracts to better use. Appendix B summarizes the monetary benefits identified from this audit.

Additionally, we found weaknesses in the management of NOAA’s CPAF and CPAT contracts. First, NOAA did not ensure adequate separation of duties in evaluating contractor performance and awarding fees. The award-fee and award-term plans provided for separation of such duties by requiring evaluation teams to consist of an award determining official, a performance evaluation board (PEB), and performance monitors. The PEB is responsible for reviewing the performance monitors' evaluations, the contractor's self-evaluation, and any other information available to arrive at an overall objective and impartial position on the contractor's performance. At NOAA, however, this process was not consistently followed. In some instances, NOAA officials not only assessed contractor performance but also recommended award-fee amounts. Second, NOAA did not maintain documentation in the contract file justifying the use of these contract types as required. In some cases, the later conversion of the contract suggested that the initial selection of a CPAF and CPAT contract type may have been questionable. Together, these issues raise questions on whether NOAA had assurances that the use of these contract types was appropriate. Table I contains a summary of findings associated with the nine contracts.

Table I. Summary of Findings Associated with the Nine CPAF and CPAT Contracts

	Contract No.	Estimated Contract Amount	Contractor Ratings Not Adequately Supported	Payment Structure Not Adequately Discriminated	Issues with Evaluation Criterion	Issues with Adjectival Ratings	Contract Type Not Justified	Issues with Separation of Duties in Evaluating Contractor Performance
1	DGI33E09 – CN0101	\$ 20,598,869		✓		✓	✓	✓
2	DGI33E10 – CN0229	130,703,026		✓	✓	✓		
3	DGI33E09 – CN0094	735,794,197		✓	✓	✓	✓	
4	DGI33E03 – CN0012	10,032,561	✓	✓	✓	✓	✓	
5	EAI33E08 – CQ0020	200,000,000		✓		✓	✓	
6	DGI33E06 – CQ0030	69,999,000	✓		✓	✓	✓	
7	DGI33W05 – CQ1067	330,000,000				✓	✓	
8	DGI33E07 – CQ0030	45,000,000	✓				✓	✓
9	DGI33W03 – CQ0021	80,000,000	✓		✓	✓	✓	
	TOTAL	\$1,622,127,653						

Source: OIG

Finally, the complete picture of NOAA's use of CPAF and CPAT contracts is unclear. Data reported in the Federal Procurement Data System-Next Generation (FPDS-NG) and records maintained by NOAA on the use of CPAF and CPAT contracts were inaccurate and incomplete. This occurred, in part, because NOAA contracting officials did not consistently ensure the accuracy of individual contracts reported in FPDS-NG or track combination contracts containing award-fee and award-term provisions.



NOAA contract data reported in FPDS NG were inaccurate.

Appendix A further details the objectives, scope, and methodology of our audit. Appendix B charts the potential monetary benefits we found from our review. Appendix C outlines NOAA's award-fee/award-term processes, while appendix D defines the terms used in this report.

Findings and Recommendations

I. Management of CPAF and CPAT Contracts Needs Improvement

NOAA needs to use award-fee and award-term contracts more effectively to encourage excellence in contractor performance. We reviewed nine CPAF and CPAT contracts and identified weaknesses in how NOAA evaluated contractor performance and developed award-fee and award-term plans. Often, contractor performance evaluation documents were not consistently maintained by NOAA performance monitors or did not contain enough specific examples of good or bad contractor performance to justify award fees and contract extensions. Also, award-fee and award-term plans developed by NOAA did not consistently and clearly identify criteria for evaluations or contain payment structures that encouraged contractors to excel. In addition, descriptions defining scores to rate contractor performance were subjective and unclear. Further, contracting officials did not justify the cost-effectiveness of selecting a CPAF or CPAT contract by evaluating administrative costs against expected benefits to the government. Without this evaluation, NOAA had no assurance that use of CPAF or CPAT contracts was appropriate.

A. Contractor Ratings Were Not Adequately Supported to Justify Award-Fee Payments and Award-Term Extensions

Contracting officials did not consistently demonstrate that contractor performance ratings supported award payments and term extensions. As a result, approximately \$43.8 million of award fees and award terms may not have been justified.

Of the nine contracts we reviewed, rating periods had been completed for eight. For the remaining contract, a rating period had not been completed because the contract was converted to another contract type, so no award fees had been paid. Four contracts had sufficient documentation supporting performance monitors' evaluations and ratings. The other four contracts—one award-fee and three award-term—lacked adequate supporting documentation to determine whether the assigned ratings and the resulting award fees and term extensions were justified. This occurred because NOAA officials responsible for documenting contractor performance did not adhere to the processes outlined in the award-fee and award-term plans. For some contracts, performance monitors did not provide comments or examples to support their adjectival⁵ or numerical ratings or to indicate that key evaluation criteria were satisfied. For those contracts where performance monitors did provide narratives to support ratings, the comments or examples were general and lacked the detail needed to demonstrate that the ratings were warranted. For example, on one award-fee contract—totaling approximately \$10 million—to upgrade personnel and equipment for the Command and Data Acquisition Stations and Satellite Operations Control Center, contracting officials could not provide written evidence of government

⁵ Adjectival ratings describe what constitutes each level of performance within each performance category, such as “excellent” or “satisfactory,” and provide assistance in establishing evaluation criteria as shown in FAR section 16.401(e)(3)(iv) and FAR table 16-1.

surveillance of the contractor's performance to support the award fee paid to the contractor in the amount of \$302,964.

For one \$80 million CPAT contract for the National Weather Service's river, flood, and drought forecasting capabilities, the award consisted of a base period of 5 years and included five 1-year award-term periods. The contract called for annual evaluations of the contractor's performance against the criteria stated in the award-term plan. According to the award-term plan, the documentation needed to support award-term determinations included performance monitors' evaluations, PEB rating recommendations, and award determining official's decisions. However, a PEB chairperson had not been appointed, the PEB had never met, and performance monitors' documentation was available only for the first award-term period. We found that the supporting documentation was either incomplete or unavailable. For example, performance monitors generally provided numerical ratings and less than one-sentence explanations to support rating recommendations. In some instances, no narrative descriptions were included with the ratings. Support for superior ratings included general comments such as "there were no quality problems," "excellent task quality," "on budget," and "exceeds government's needs." Despite the lack of specific comments and examples, the award determining official approved all five of the 1-year award-term extensions, totaling \$40 million. We also found other problems with this contract such as the contracting officer awarding the term extension 9 months after the 5-year base period of performance had ended.

Approximately \$43.8 million of award fees and award terms may not have been justified.

For another CPAT contract—valued at about \$70 million—for National Environmental Satellite, Data, and Information Service scientific and technical support services, the PEB and contracting officer's technical representative (COTR) prepared evaluation reports for the award determining official without detailed narratives supporting the numerical ratings that the contractor received. The reports contained short descriptions or no comments on how and why the specific numerical ratings were provided for the contractor. For example, the PEB and COTR used descriptions such as "frequent information discussions held with task monitors to ensure constant awareness of task status" and "accurate and timely monthly technical progress reports; and experimental results from scientific deployments presented to the task monitor in a timely fashion" as a basis for supporting additional award terms. Despite the lack of clear and specific comments and examples, the contractor earned two award terms totaling 7 months at a cost of \$3.5 million.

Best practices from other federal agencies such as NASA, the Air Force, the Army, and the Navy generally state that performance monitors should observe contractor performance based on the criteria specified in the performance evaluation plan and document results by giving specific examples to support their conclusions. Performance monitors' evaluations form the foundation of the award-fee and award-term evaluation process. Without detailed performance monitors' reports and examples, NOAA is forced to rely on contractor self-assessments and high-level PEB assessments to recommend award-fee and award-term extensions, which could result in overstated award fees and unjustified extended contract

performance. Without sufficient documentation from the performance monitors, we could not determine whether the high fees or term extensions awarded were justified.

B. Payment Structures Do Not Provide Adequate Distinctions Between Satisfactory and Excellent Contractor Performance

To encourage contractor excellence, OMB guidance⁶ on incentive contracts such as CPAF and CPAT requires clear distinctions between satisfactory and excellent performance to support award-fee and award-term approvals. For the five CPAF contracts that we reviewed, award-fee payment structures were not designed to prompt contractors to excel. The payment structures that we reviewed associated specific numerical performance scores (between 0 and 100) with adjectival ratings—“excellent,” “very good,” “good,” “satisfactory,” and “poor/unsatisfactory”—and specified the percentage of the available award fee or award terms that contractors could earn for each rating. However, we found that contractors did not have to excel to receive a large portion of available award fees. For example, NOAA’s payment structure for the Geostationary Operational Environmental Satellite-R Series (GOES-R) ground segment services and supplies contract allowed the contractor to earn an award fee for “satisfactory” performance—which the contract defines as meeting contract requirements with some weaknesses. The payment structure would allow up to 70 percent, about \$75.6 million, of the award-fee pool for average performance, leaving only about \$22.7 million to motivate performance that exceeds expectations. This type of payment structure not only allows contractors to receive substantial payments for average performance but also leaves little in the award-fee pool to encourage contractors to exceed expectations and achieve desired contract outcomes. Moreover, FAR section 16.401 states that the contractor should not earn more than 50 percent of the available award-fee pool for satisfactory performance.

C. Evaluation Criteria Do Not Adequately Support Contractor Performance Assessments

Clear evaluation criteria are critical to ensuring that award fees are commensurate with contractor performance. Without clearly defined metrics and outcomes, performance ratings are subject to interpretation and can result in unsupported contractor performance evaluations and awards. Accordingly, OMB guidance⁷ calls for incentive contracts such as CPAF and CPAT contracts to establish specific performance objectives before contract award, such as delivering products and services on time, within cost goals, and of a stated level of quality. OMB guidance also states that awards must be tied to demonstrated results, as opposed to effort, in meeting or exceeding specified performance standards. Best practices from NASA and the Departments of the Air Force, Army, and Navy similarly recommend the use of measurable criteria to evaluate contractor performance and warn that using broad evaluation criteria can result in monitors being unable to provide meaningful comments to support ratings.

⁶ OMB Memorandum, *Appropriate Use of Incentive Contracts*, December 4, 2007.

⁷ OMB Memorandum, *Appropriate Use of Incentive Contracts*, December 4, 2007.

Of the nine contracts reviewed, four had clear and measurable criteria to evaluate contractor's performance. For example, the award-term plan for Software Development and Systems Security for the Comprehensive Large Array-data Stewardship System includes "98 percent of system components scanned quarterly," 100 percent of the documentation provided meets the stated standards within 30 days," and "90 percent of system operators and administrators are trained prior to introduction of new capabilities."

The remaining five contracts—three CPAF and two CPAT—had no clear and measurable criteria to evaluate performance. For example, on two GOES-R contracts, one which provides for antenna

Criteria and ratings used to evaluate contractor performance were subjective and applied inconsistently.

system development and the other for ground segment services and supplies, contracting officials used identical evaluation criteria factors and descriptions for evaluating the contractor's performance rather than tailoring the particular requirements and outcomes of each contract. The evaluation plans for these contracts included identical phrases such as "the contractor will be evaluated on its ability to maintain an integrated program that links, among others: risk management to schedule and cost management, requirements management to schedule and cost management," "support informed, timely, and effective decisions to control risks and mitigation plans," "the contractor will be evaluated based on its ability to interface with the Government Furnished Property vendors and the GOES-R space segment vendors," and "this includes, but is not limited to, the following: compliance with contract provisions; performance against the Small Business Subcontracting plan goals...and timely subcontract adjustments."

NOAA should tailor evaluation criteria and factors to fit the circumstances of each procurement award to ensure that NOAA's contract objectives are being met and to motivate the contractor to perform the best job in critical areas as determined by NOAA. For the two GOES-R contracts, revising the performance evaluation plans to include meaningful and measurable award-fee criteria will put approximately \$61 million in expected award fees to better use. For the other three contracts, no available award fees or terms remain because the contracts were converted to another contract type, the period of performance ended on the contract, or contracting officials awarded all available award terms.

D. NOAA Entered into CPAF and CPAT Contracts Without Sufficient Knowledge of Their Appropriateness

While CPAF and CPAT contracts can provide incentives toward innovation and cost reductions, they require more post-award monitoring and resources than fixed-priced contract types. Before a cost-reimbursable contract, such as CPAF or CPAT, is selected, the FAR⁸ requires that each contract file contain documentation showing why the particular contract type was selected and the government's additional risks and burden required in managing the selected contract type. OMB guidance⁹ reinforced this requirement by directing contracting officers to conduct and document risk and cost-benefit analyses when

⁸ FAR section 16.103(d).

⁹ OMB Memorandum, *Appropriate Use of Incentive Contracts*, December 4, 2007.

determining whether to use incentive contracts. In addition, according to the FAR,¹⁰ an incentive contract may only be used when appropriate government surveillance during performance will provide reasonable assurance that efficient methods and effective cost controls are used.

Of the nine contracts reviewed, eight contracts lacked documentation justifying the cost-effectiveness of selecting an incentive contract as required by the FAR, section 16.103(d)(1). In some contracts, the selection of an award-fee or award-term contract type may have been questionable. For example, in July 2009, NOAA awarded an approximately \$21 million CPAF contract for engineering and ground system engineering support services for two operational environmental satellite constellations. Subsequently, in June 2011, NOAA officials converted this contract to cost-plus-fixed-fee (CPFF) because they realized the significant time involved in adequately evaluating contractor performance to determine whether an award fee was warranted, thus raising questions about whether the selection of a CPAF contract was initially appropriate.

Of the nine contracts, contracting officials already have converted two that were originally executed with award-fee provisions and one with award-term provisions to CPFF contracts. NOAA did not document the reasons for changing the initial contract types to CPFF contracts. Table 2 contains the contract type before and after conversion of these contracts.

Table 2. Contracts Converted to Cost-Plus-Fixed-Fee (CPFF)

Contract	Contract Type Before Conversion	Contract Type After Conversion
DG I33E03CN0012	CPAF	CPFF
DG I33E09CN0101	CPAF	CPFF
DG I33E07CQ0030	CPFF/AT	CPFF

Source: OIG

Contracting officials stated to us that they converted these three contracts for the following reasons:

- The scope of work never justified incentives for contract performance.
- The Line Offices did not have the resources or experience to administer award-fee contracts.
- Acquisition and Grants Office resources were strained because Line Offices would not comply with award-fee processes.
- Conversions were completed only after research was done to ensure contract outcomes and deliverables were not jeopardized.

¹⁰ FAR section 16.301-3 (a)(4)(ii).

Without proper justifications and approvals, NOAA had no assurance that CPAF and CPAT contracts were the most appropriate types for these contract actions and could not justify the increased risk and administrative burden.

E. Overlapping Award-Fee and Award-Term Responsibilities Create Additional Risks

To improve accountability over federal programs and operations, OMB Circular A-123¹¹ requires that key responsibilities in authorizing, processing, recording, and reviewing official agency transactions be separated among individuals performing these duties. Best practices from the Departments of the Air Force and Army underscore OMB Circular A-123. Specifically, their guidance states that it is especially important for all personnel to understand the overall evaluation process and their specific roles and responsibilities within their agency to evaluate the contractor's performance. The Federal Aviation Administration's award-fee guide similarly indicates that a three-level organizational structure should generally be established using separate individuals for performance monitor, PEB, and fee-determining official (FDO) duties.

However, on two of the contracts we reviewed, NOAA personnel simultaneously fulfilled multiple key roles in the award-fee process, such as performance monitor and voting member on the PEB. For example, on a contract—totaling approximately \$45 million—for theoretical analysis, exploratory studies and experiments for satellites, the performance evaluation plan designated employees to act as performance monitors as well as members on the PEB. In other words, performance monitors are reviewing their own ratings. Allowing personnel to simultaneously carry out both performance monitor and PEB responsibilities increases the risks inherent to CPAF and CPAT contracts because the PEB, when recommending the earned award-fee amount or term extension, is expected to provide an objective assessment of the contractor's overall performance based on performance monitors' evaluations, contractors' self-evaluations, and any other information available.

II. Inaccurate and Incomplete Reporting of NOAA's Open and Active CPAF and CPAT Contracts

In October 2003, the General Services Administration (GSA) introduced FPDS-NG¹² as the backbone system for government agencies to provide contract award data to OMB. This system contains public information on contract spending across the federal government. FPDS-NG was designed to enhance the quality and reliability of procurement data by allowing agencies to directly upload data from their separate contract writing systems. To improve the completeness and accuracy of data in FPDS-NG, OMB directed agency and

¹¹ OMB Circular A-123, *Management's Responsibility for Internal Control*, December 21, 2004, and updated as of April 14, 2011.

¹² The system contains summary-level information about contracts valued at \$3,000 or more and paid for with appropriated funds.

department heads to ensure they implemented contract writing systems that were capable of electronically transferring data directly to FPDS-NG no later than the end of FY 2005.¹³

GSA requires each department to complete an annual certification that states the completeness and accuracy percentages of their data contained in FPDS-NG. The Department of Commerce reported in its FY 2010 annual certification that NOAA had a 100 percent accuracy rate on information recorded in the contract type field and NOAA's overall accuracy rate was 98 percent.

The Department's Office of Acquisition Management (OAM) provided us an active list of CPAF contracts from FPDS-NG during fiscal years 2008 to 2010. We also requested a list of active CPAF and CPAT contracts from NOAA's Acquisitions and Grants Office, covering the same period, to verify the universe of these contracts. We determined that there were discrepancies between the two lists.

To illustrate, OAM identified seven CPAF contracts as active during fiscal years 2008 to 2010. However, NOAA's list showed five active contracts—two with award fees and three with award terms. Ultimately, we determined that NOAA had nine active CPAF and CPAT contracts for that time period: four CPAF contracts, four CPAT contracts, and one contract with both award fees and terms. Two of the four CPAF contracts had an inaccurate contract type listed in FPDS-NG. NOAA was also unable to locate the contract file for one contract identified by OAM as a CPAF contract and in FPDS-NG as a cost-plus-incentive-fee (CPIF) contract. Section 4.801 of the FAR requires the head of each office performing contracting, contract administration, or paying functions to establish files containing the records of all contract actions. Missing files could be an indication of questionable contract management and oversight practices. Table 3 contains information on the contracts reported by OAM, NOAA, and FPDS-NG.

Table 3. Contract Designations According to OAM, NOAA, and FPDS-NG

	Contract No.	Estimated Contract Amount	Per OAM	Per NOAA	Per FPDS-NG	Determination After Contract File Review
1	DG133E09CN0101	\$ 20,598,869	CPAF	—	CPAF	CPAF
2	EA133E08CQ0020	200,000,000	CPAF	—	CPAF	CPAF/CPAT
3	DG133E09CN0094	735,794,197	CPAF	CPAF	CPAF	CPAF
4	DG133E10CN0229	130,703,026	—	CPAF	FP ^a	FP/CPAF
5	DG133E06CQ0030	69,999,000	CPAF	CPAT	CPFF	CPFF/CPAT
6	DG133E03CN0012	10,032,561	CPAF	—	CPFF	CPAF
7	DG133E07CQ0030	45,000,000	CPAF	—	CPAF	CPFF/CPAT
8	DG133W05CQ1067	330,000,000	—	CPAT	FP	FP/CPAT
9	DG133W03CQ0021	80,000,000	—	CPAT	OD ^b	CPFF/CPAT
10	DG133W03CT0030	0	CPAF	—	CPIF	Missing file
	Total	\$1,622,127,653	7	5	10	9

Source: OIG

Dashes indicate that the contract was not identified in the list to OIG.

^aFP—fixed price; ^bThe contract type recorded in FPDS-NG states order dependent (OD), which allows pricing arrangement to be determined separately for each order.

¹³ OMB Memorandum, *Timely and Accurate Procurement Data*, August 25, 2004.

Inaccuracies and deficiencies in maintaining a complete list of active CPAF contracts occurred, in part, because NOAA contracting officials did not consistently ensure the accuracy of individual contracts reported in FPDS-NG or track combination contracts containing award-fee and award-term provisions. Also, since FPDS-NG does not allow agencies to code contracts with more than one contract type as combination contracts, agencies must use the code for the contract type representing the larger portion of the expected contract value. For example, if a contract has both cost-reimbursement and fixed-price portions but the fixed-price portion of the contract makes up 60 percent of the expected contract value, the contract would be coded as fixed-price. This practice results in potentially underreporting award-fee and award-term contracts in FPDS-NG and increases the risk of erroneous reporting to internal and external stakeholders such as Congress, OMB, and taxpayers. Therefore, having complete and accurate information would allow NOAA to monitor the use and execution of these types of contracts more effectively.

Recommendations

We recommend that the Director of the NOAA Acquisition and Grants Office:

1. Require performance monitors to provide narrative comments that identify specific strengths, weaknesses, and deficiencies to support assigned ratings.
2. Develop award-fee and award-term incentive structures that encourage contractor excellence.
3. Update the performance evaluation plans for contracts DGI33E10CN0229 and DGI33E09CN0094 to add more measurable award-fee criteria.
4. Develop measurable and outcome-based criteria for assessing contractor performance for award fees and award-term extensions.
5. Require a cost-benefit analysis in decisions on CPAF and CPAT contracts, including documentation of how the benefits will offset the costs and justifications and approvals for all contract actions containing award-fee and award-term provisions.
6. Establish clear division of responsibility for the evaluation team (award determining official, PEB, and performance monitors) and prohibit the same official from performing multiple roles.
7. Develop controls over the maintenance of contract files and contract data to ensure more immediate availability and completeness of documentation for contract actions.

Summary of Agency and OIG Comments

In responding to our draft report, NOAA concurred with all of our recommendations except for a draft recommendation that asked NOAA to develop and maintain a database of contracts with award-fee, award-term, and incentive provisions. NOAA asserted that it would continue to rely on FPDS-NG and that developing and maintaining a separate database, which would essentially serve the same purpose as FPDS-NG, would not be an efficient use of its limited resources.

We agree that NOAA should rely on FPDS-NG for tracking all contract actions. However, we disagree that FPDS-NG will provide a complete and accurate picture of NOAA's use of CPAF and CPAT contracts. As noted in our report, data reported in FPDS-NG and records maintained by NOAA on the use of CPAF and CPAT contracts were inaccurate and incomplete. Further, FPDS-NG does not allow agencies to code contracts with more than one contract type as combination contracts, which forces NOAA to use the code for the contract type representing the larger portion of the expected contract value. For example, five of the nine contracts we reviewed had been coded as contract types other than CPAF or CPAT because the contracts were combination contracts and a larger portion of the expected value of these contracts was a contract type other than CPAF or CPAT. As a result, we had to rely on records separately maintained by NOAA and OAM, other than FPDS-NG, to determine the number of CPAF and CPAT contracts currently in effect. We also found inaccuracies in these records.

Recognizing NOAA's intention to address its data quality issues without maintaining a separate database, we removed the draft recommendation with which NOAA did not concur and are asking NOAA to develop controls for accumulating contract data in coordination with the development of its controls over the maintenance of its contract files, as described in recommendation 7 of this final report.

We look forward to reviewing NOAA's action plan to address our report recommendations in greater detail. We have included NOAA's complete response as appendix E.

Appendix A: Objectives, Scope, and Methodology

The objectives of our audit were to determine whether the National Oceanic and Atmospheric Administration (NOAA) properly supported decisions related to award-fee and award-term ratings and effectively monitored award-fee and award-term plans and contractor performance.

We limited our scope to cost-plus-award-fee (CPAF) and award-term (CPAT) contracts and task orders. However, we do not have reasonable assurance that we have reviewed all of these contracts and task orders active during FYs 2008, 2009, and 2010 due to NOAA's inability to provide a complete and reliable list when requested by the Office of Inspector General.

To identify the population of NOAA's CPAF and CPAT contracts, we obtained a list from the Department of Commerce Office of Acquisition Management (OAM). OAM's list was generated from the Federal Procurement Data System-Next Generation (FPDS-NG), covered FYs 2008–2010, and contained task orders and modifications for CPAF and CPAT contracts. According to OAM's list, NOAA's Acquisitions and Grants Office had 7 active CPAF contracts. NOAA disagreed, stating it had 2 active CPAF contracts and 3 contracts with award terms. Three of the 5 contracts NOAA identified as containing award fees or award terms were not on OAM's list. Through our review of the contract files, we verified that of the 10 contracts identified by OAM and NOAA, 4 had award-fee provisions, 1 had award-fee and term provisions, and 4 had award-term provisions. For one contract, NOAA could not locate and provide the contract file for our review. As a result, the contract type was not verified for one of the contracts we intended to include in our audit. A list of contract actions that OAM and NOAA identified as CPAF or CPAT is shown in tables 4 and 5.

Because of the conflicting information we received related to these contracts, we reviewed the award documents for the seven contracts on OAM's list plus the three contracts NOAA identified that were not contained on OAM's list. Performing this procedure allowed us to independently verify which contracts and task orders were awarded with fee and term provisions, as shown in tables 4 and 5.

Table 4. Award-Fee Contracts Included in the Audit

NOAA Funding Office	Contract No.		Description	Estimated Contract Amount	Estimated Award-Fee Pool Amount
National Environmental Satellite, Data, and Information Service	1	DG133E09CN0101	CPAF contract for engineering and ground system engineering support services for two operational environmental satellite constellations: GOES and POES	\$ 20,598,869	\$ 958,872
	2	DG133E10CN0229	Combination FP and CPAF contract for GOES-R series antenna system development	130,703,026	5,001,414
	3	DG133E09CN0094	CPAF contract for GOES-R ground segment services and supplies	735,794,197	75,647,068
	4	DG133E03CN0012	CPAF contract for personnel and equipment to upgrade the Command and Data Acquisition Stations and Satellite Operations Control Center	10,032,561	655,096
	5	EA133E08CQ0020	IDIQ contract with two CPAF task orders and award terms for Comprehensive Large Array-data Stewardship System information technology support	200,000,000	4,341,310
Total				\$1,097,128,653	\$86,603,760

Source: OIG review of contract files

CPAF = cost-plus-award-fee; GOES = Geostationary Operational Environmental Satellite; POES = Polar Operational Environmental Satellite; FP = fixed-price; GOES-R = Geostationary Operational Environmental Satellite-R Series; CPFF = cost-plus-fixed-fee; IDIQ = indefinite-delivery, indefinite-quantity.

Table 5. Award-Term Contracts Included in the Audit

NOAA Funding Office	Contract No.		Description	Estimated Contract Amount	Estimated Award-Term Pool Amount
National Environmental Satellite, Data, and Information Service	1	DG133E06CQ0030	CPFF contract with award terms for scientific and technical support services	\$ 69,999,000	\$ 15,000,000
	2	DG133E07CQ0030	IDIQ contract with award terms for theoretical analysis, exploratory studies and experiments for government satellites	45,000,000	36,000,000
National Weather Service	3	DG133W05CQ1067	IDIQ contract with FP or cost-reimbursable task orders and award terms for Advanced Weather Interactive Processing System services	330,000,000	295,460,000
	4	DG133W03CQ0021	IDIQ contract with CPFF and FP task orders and award terms for river, flood, and drought forecasting capabilities	80,000,000	40,000,000
Total				\$ 524,999,000	\$ 386,460,000

Source: OIG review of contract files

CPFF = cost-plus-fixed-fee; IDIQ = indefinite-delivery, indefinite-quantity; FP = fixed-price.

To accomplish our objectives, we reviewed:

- relevant policies and guidance to include OMB directives, the Federal Acquisition Regulation, the *Commerce Acquisition Manual*, and NOAA acquisition guidance;
- a total of nine contracts identified as CPAF by the Office of Acquisition Management and NOAA Acquisitions and Grants Office;
- award-fee plans and award-term incentive provisions in the contracting officer's files and evaluated the payment structure and criteria used to evaluate contractor performance;
- documentation supporting contractor evaluations and scoring decisions to verify that (1) award fees were paid in accordance with the award-fee plan and (2) award terms, when earned, were adequately explained and supported in accordance with the award-term incentive provisions of the contract; and
- records supporting the payment of award fees to contractors, including assessments of contractor performance, and determined whether sufficient descriptive information was forwarded to award determining officials.

We also obtained contract files and analyzed documentation on award-fee and award-term planning, evaluation, and payment processes and interviewed contracting and program officials responsible for monitoring contractor performance. Additionally, we obtained an understanding of the internal controls used to manage award-fee and term processes by interviewing the acquisition personnel at NOAA and assessing their adherence to the requirements in the *Commerce Acquisition Manual*. While we identified and reported on internal control deficiencies, no incidents of fraud, illegal acts, violations, or abuse were detected within our audit. We identified weaknesses in the controls related to the processes and procedures used to evaluate and monitor the award-fee and term processes. We did not rely on computer-processed data to draw our conclusions or to perform this audit.

We conducted the audit fieldwork between May 2011 and February 2012. We performed our fieldwork at the NOAA Acquisitions and Grants Office - National Capital Acquisition Division in Silver Spring, Maryland. We conducted this 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. We performed our work under the authority of the Inspector General Act of 1978, as amended, and Department Organizational Order 10-13, August 31, 2006.

Appendix B: Potential Monetary Benefits

	Questioned Costs	Funds Put to Better Use
<i>Unsupported Award-Fee Payments and Award-Term Extensions</i>	\$ 43,802,965	\$ 0
<i>Balance of Award-Fee Pool</i>	\$ 0	\$60,927,455

Appendix C: NOAA Award-Fee and Award-Term Processes

The award determining official determines the award-fee amount earned on a CPAF contract and the award-term points earned on a CPAT contract at the end of each evaluation period. Procedures for monitoring and evaluating contractor performance during each period are as follows.

General Overview of Award-Fee Process	
1	The contractor may submit its technical proposal recommendation evaluation factors and weightings for the task order. Consideration will be given to the contractor's recommendations; however, the government will determine the specific evaluation factors for each evaluation period.
2	At the kick-off meeting, the contracting officer (CO) will provide to the contractor the government's selected evaluation factors and weightings for the task order.
3	The contractor will be apprised in writing by the contracting officer's technical representative (COTR) of a general assessment of its performance at the mid-point of each evaluation period, and at such other times as deemed appropriate.
4	No later than 5 business days after the conclusion of each evaluation period, the contractor may submit a self-evaluation report to the Award Fee Evaluation Board (AFEB). This self-evaluation report may not exceed 10 pages in length.
5	The AFEB will meet within fifteen (15) business days after conclusion of each evaluation period to consider all performance information it has obtained, including the contractor self-evaluation report (if received within the allotted time in the previous paragraph). The AFEB will summarize its findings and recommendations in the Award-Fee Evaluation Report (AFER).
6	The AFEB Chair will present the AFER findings and recommendations to the Fee Determining Official (FDO) within five (5) business days of the AFEB meeting. The report will include recommended adjectival rating and performance scores with supporting documentation. A copy of the AFER will also be provided to the contractor at the time of AFER submission to the FDO.
7	The contractor may submit to the FDO a supplement to the self-evaluation report within 5 business days of receipt of the AFER to provide any additional information to the FDO and in response to AFER that the contractor believes is relevant to its performance and that may affect the FDO determination. This supplement shall not exceed 10 pages in length.
8	The FDO will consider the AFEB recommendation, self evaluation report supplement (if submitted) and any other pertinent information in determining the performance scores. The FDO findings will be stated in the written award fee determination (AFD).
9	The FDO will provide the AFD to the contractor.
General Overview of Award-Term Process	
1	The Award Term Review Board (ATRB) Recorder notifies each ATRB member and performance monitor one week before the evaluation period is complete.
2	For each evaluation period, the contractor is required to submit to the contracting officer (CO) a written (10-page maximum) self-assessment of their performance two weeks after the current evaluation period ends.
3	Performance monitors review their written records of the contractor's performance as well as the contractor's self-assessment and submit their evaluation reports to the CO and ATRB no later than two weeks after receipt of contractor's self-assessment.
4	The CO forwards copies of the performance monitors' evaluation reports to the contractor upon receipt.
5	The contractor will then orally respond to the performance monitor evaluations via a formal one-hour presentation to all members of the Award Term Organization within two weeks after receipt of Monitors' Evaluation Report.
6	The ATRB will then prepare their evaluation report and recommendation for the award term determining official (ATDO). The ATRB chairperson briefs the evaluation results and recommendation of earned award-term points to the ATDO one week after the formal one-hour presentation.
7	The ATDO determines the final earned award-term points for the evaluation period within one week after ATRB chairperson's evaluation briefing.
8	A letter from the CO informs the contractor of the earned award term points and the total cumulative points.
9	Upon the accumulation of sufficient award term points, the CO issues a letter/modification within two weeks after the ATDO's determination is made authorizing award extension and/or documenting earned term points.

Source: NOAA

Appendix D: Award-Fee and Award-Term Definitions

award fee: An amount awarded for excellence in contractor performance as measured by the criteria defined and established in the contract within the award-fee pool amount available to the contractor.

award determining official: The person responsible for reviewing the recommendations of the performance evaluation board in determining the amount of award fee or the length of award term extension to be earned by the contractor for each evaluation period.

award-fee plan: The document that identifies the award-fee strategy, detailing procedures for implementing the award-fee structure and the method by which the contractor's performance will be evaluated during each evaluation period.

award-term plan: The document that describes the process by which contractor performance will be evaluated and defines a process, consistent and effective, resulting in equitable appraisals of contractor performance and award-term determinations.

cost-plus-award-fee (CPAF) contract: A cost-reimbursement contract that provides for a fee consisting of a base amount fixed at inception of the contract and an award amount, based on a judgmental evaluation by the government, sufficient to provide motivation for excellence in contract performance.

cost-plus-award-term (CPAT) contract: A contract that awards the contractor by extending the contract period of performance. Under an award-term incentive, the government monitors and evaluates the contractor's performance, and if the award determining official decides that the contractor's performance was excellent, then the contractor earns an extension. The extension is conditioned upon the government's continuing need for the service and the availability of funds.

cost-plus-fixed-fee (CPFF) contract: A contract that allows for payment of all incurred costs within a predetermined amount plus an agreed-upon fee, which will not change.

performance evaluation board (PEB): The board responsible for review of the performance monitors' evaluations, the contractor's self-evaluation, and any other pertinent information for determining the overall position on the effectiveness of the contractor's performance. The board also summarizes its findings and recommendations in an evaluation report for submission to the award determining official.

performance monitors: Persons assigned by the program manager to provide input to the performance evaluation board on a contractor's performance.

task order contract: A contract for services that does not specify a firm quantity of services to be procured (other than a minimum or maximum quantity).

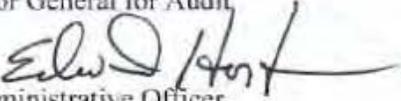
Appendix E: Agency Response



UNITED STATES DEPARTMENT OF COMMERCE
National Oceanic and Atmospheric Administration
CHIEF ADMINISTRATIVE OFFICER

May 4, 2012

MEMORANDUM FOR: Andrew Katsaros
Assistant Inspector General for Audit

FROM: Edward Horton 
NOAA Chief Administrative Officer

SUBJECT: Draft OIG Report – *National Oceanic and Atmospheric Administration: NOAA's Cost-Plus-Award-Fee and Award-Term Processes Need to Support Fees and Extensions*

Thank you for the opportunity to comment on the Office of the Inspector General's draft audit report of the National Oceanic and Atmospheric Administration's management of cost-plus-award-fee and cost-plus-award-term contracts. Our specific comments on the report's findings and recommendations are attached.

Attachment

**Department of Commerce
National Oceanic and Atmospheric Administration
Comments on the Draft OIG Report Entitled
“NOAA’s Cost-Plus-Award-Fee and Award-Term Processes
Need to Support Fees and Extension”
(April 6, 2012)**

General Comments

The Department of Commerce’s National Oceanic and Atmospheric Administration (NOAA) appreciates the considerable time and effort of the Office of Inspector General (OIG) in conducting its review of NOAA’s management of cost-plus-award-fee and cost-plus-award-term contracts.

Recommended Changes for Factual/Technical Information

Distinguishing applicable law and regulation at the time of award may provide additional context. In addition, we would suggest distinguishing changes relevant to the subject of the audit changed before, during, and after contract award.

NOAA Response to OIG Recommendations

Recommendation 1: Require performance monitors to provide narrative comments that identify specific strengths, weaknesses and deficiencies to support assigned ratings.

NOAA Response: Concur. Performance monitors will be required to provide narrative comments that identify strengths, weaknesses and deficiencies to support assigned ratings.

Recommendation 2: Develop award-fee and award-term incentive structures that encourage contractor excellence.

NOAA Response: Concur. NOAA will develop award-fee and award-term incentive structures that encourage contractor excellence.

Recommendation 3: Update the performance evaluation plans for contracts DG133E10CN0229 and DG133D09CN0094 to add more measurable award-fee criteria.

NOAA Response: Concur. The performance evaluation plan for contract DG133D09CN0094 will be updated. The performance evaluation plan for contract DG133E10CN0229 will be eliminated as part of a conversion to a cost plus fixed fee contract.

Recommendation 4: Develop measurable and outcome-based criteria for assessing contractor performance for award fees and award-term extensions.

NOAA Response: Concur. NOAA will develop award-fee and award-term incentive structures that encourage contractor excellence.

Recommendation 5: Require a cost-benefit analysis in decisions on CPAF and CPAT contracts, including documentation of how the benefits will offset the costs and justifications and approvals for all contract actions containing award fee and award term provisions.

**Department of Commerce
National Oceanic and Atmospheric Administration
Comments on the Draft OIG Report Entitled
“NOAA’s Cost-Plus-Award-Fee and Award-Term Processes
Need to Support Fees and Extension”
(April 6, 2012)**

NOAA Response: Concur. NOAA will require a cost-benefit analysis in decisions on CPAF and CPAT contracts, including documentation of how the benefits will offset the costs and justifications and approvals for all contract actions containing award fee and award term provisions.

Recommendation 6: Establish clear division of responsibility for the evaluation team (award determining official, PEB, and performance monitors) and prohibit the same official from performing multiple roles.

NOAA Response: Concur. NOAA will establish clear division of responsibility for the evaluation team (award determining official, PEB, and performance monitors) and prohibit the same official from performing multiple roles.

Recommendation 7: Develop and maintain a database of all contracts and orders containing award-fee, award-term, and incentive provisions.

NOAA Response: Non-Concur. NOAA will rely on FPDS-NG. NOAA currently utilizes FPDS-NG, the government-wide database for tracking all contract actions. NOAA has not awarded a CPAF or CPAT type contract in the past 12 months and it would not be an efficient use of our limited resources to develop and maintain a database which is separate from FPDS-NG that would essentially serve the same purpose. NOAA will ensure data entered into FPDS is accurate by continuing to utilize our current two part method of review and by conducting quarterly Independent Verification and Validations (IV&V) in accordance with CAM 1304.6. It should be noted that the IV&V requirement was established after the list of CPAF and CPAT contracts reviewed in this audit were awarded and since implementation of CAM 1304.6, NOAA has consistently received a 95% or high accuracy rating.

Recommendation 8: Develop controls over the maintenance of contract files to ensure more immediate availability and completeness of documentation for all contract actions.

NOAA Response: Concur. NOAA will develop controls over the maintenance of contract files to ensure more immediate availability and completeness of documentation for all contract actions.