

---

**NATIONAL SECURITY AGENCY/CENTRAL SECURITY SERVICE**



**INSPECTOR GENERAL REPORT**  
**Audit of Award Fee Contracts**  
**AU-17-0008**  
**3 APRIL 2019**

## OFFICE OF THE INSPECTOR GENERAL

Pursuant to the Inspector General Act of 1978, as amended, and in accordance with NSA/CSS Policy 1-60, the NSA Office of the Inspector General (OIG) conducts audits, inspections, intelligence oversight, and investigations. The OIG's mission is to detect and deter waste, fraud, abuse, and misconduct within the Agency and its programs, to promote the economy, efficiency, and effectiveness of NSA operations, and to conduct intelligence oversight ensuring that NSA activities comply with the law and are consistent with civil rights and civil liberties.

### **Audits**

The audit function provides independent assessments of Agency programs and organizations. Performance audits evaluate the effectiveness and efficiency of entities and programs and their internal controls – Mission and Mission Support audits examine a wide range of Agency programs and operations, and Technology and Cybersecurity audits focus on information technology programs, systems, and capabilities. Financial audits determine whether Agency financial statements are presented fairly, in all material respects, in conformity with U.S. generally accepted accounting principles, and conduct other required financial audits. All audits are conducted in accordance with standards established by the Comptroller General of the United States.

### **Inspections**

Inspections are organizational reviews that assess the efficiency and effectiveness of Agency components. The Inspections Division also partners with Inspectors General of the Service Cryptologic Elements and other IC entities to jointly inspect consolidated cryptologic facilities.

### **Intelligence Oversight**

Intelligence oversight (IO) works to ensure that NSA intelligence and intelligence-related functions comply with federal law, executive orders, and DoD and NSA policies, and that Agency activities are conducted consistently with civil liberties and U.S. person privacy protection. The IO mission is grounded in Executive Order 12333, which establishes broad principles under which IC components must accomplish their missions.

### **Investigations**

The OIG investigates a wide variety of allegations of waste, fraud, abuse, and misconduct involving NSA programs, operations, and personnel. The OIG initiates investigations based upon information from a variety of sources, including complaints made to the OIG Hotline; information uncovered during its inspections, audits, and reviews; and referrals from other Agency organizations. Complaints can be made to the OIG Hotline online, by email, regular mail, telephone, or in person, and individuals can do so anonymously or identify themselves but indicate that they wish to maintain their confidentiality.

**NOTE: A classified version of the Audit of Award Fee Contracts formed the basis of the unclassified version. The National Security Agency (NSA) Office of the Inspector General (OIG) has endeavored to make this unclassified version of the Award Fee Contracts as complete and transparent as possible. However, where appropriate, the NSA OIG has rephrased or redacted information to avoid disclosure of classified information and as required to protect NSA sources and methods. In that regard, the classified version of this report contained descriptions and additional program details that could not be included in the public version of this report.**

(U) TABLE OF CONTENTS

**EXECUTIVE SUMMARY ..... ii**

**I. INTRODUCTION..... 1**

**II. FINDINGS AND RECOMMENDATIONS ..... 8**

    FINDING ONE: Neither the Use of Award Fee Contracts Nor the Fee Percentages  
    Established Under the Contracts Were Properly Justified ..... 8

    FINDING TWO: The Agency Continues to Use Award Fee Contracts While DoD  
    Moves Toward Objective Incentive Arrangements..... 17

**III. CONCLUSIONS AND SUMMARY OF RECOMMENDATIONS ..... 21**

**IV. ABBREVIATIONS AND ORGANIZATIONS ..... 22**

**APPENDIX: ABOUT THE AUDIT ..... 23**

---

## EXECUTIVE SUMMARY

### Overview

---

The Office of the Inspector General (OIG) at the National Security Agency/Central Security Service (NSA/CSS) conducted this audit of award fee contracts because of the magnitude of the Agency award fee contract pools and the significant potential financial risk to the Agency and administrative burden associated with effectively managing award fee contracts.

### Highlights

---

Our audit of award fee contracts revealed the following:

- **Neither the use of award fee contracts nor the fee percentages established under the contracts were properly justified.**

More than half (29 of 54, or 54%) of the Agency's fiscal year (FY) 2016 and FY 2017 award fee contracts that we examined did not have a valid Determination and Finding justifying use of this contracting method, and 94% (51 of 54) lacked the required cost-benefit analysis of the expected benefits versus the additional administrative costs of monitoring and evaluating the contractor's performance. In addition, we found no documentation justifying the award fee percentages established for any of the 54 award fee contracts that we examined. Because of these deficiencies, it was unclear if the use of award fee contracts and the fees paid pursuant to them were appropriate.

- **The Agency's obligations for award fee contracts have increased, while DoD is moving toward objective incentive arrangements.**

Department of Defense (DoD) generally has moved away from the use of award fee contracts in favor of preferred objective incentive arrangements. Between FY 2010 and FY 2015, DoD award fee obligations declined from approximately \$34 billion to less than \$10 billion. While the total contract obligations could not be included in the unclassified version of this report, NSA/CSS obligated dollars for award fee contracts more than doubled, increasing by 139% from FY 2010 to FY 2017.

- **The Agency does not evaluate the effectiveness of award fees.**

The Agency does not comprehensively collect and analyze relevant data pertaining to award and incentive fees paid. Therefore, it cannot determine if

award fee contracts have led to improved contractor performance or achieved desired program outcomes.

## Conclusion

---

The OIG found that there was insufficient evidence to support the determination that the use of award fee contracts and the award fee percentages established under the contracts were appropriate as properly justified and documented and in the best interests of the Government. Therefore, we question \$636 million in award fees earned over multiple years associated with 54 contracts. The OIG made three recommendations to assist NSA/CSS in addressing the record-keeping deficiencies and data analysis requirements identified in this audit.

The actions planned by management meet the intent of all recommendations.

## I. INTRODUCTION

### Objective

---

The overall objective of the audit was to evaluate whether governance of the Agency award fee process complied with applicable laws and policies, and was conducted economically and efficiently. We initiated the audit because of the magnitude of the Agency award fee contract pools and the significant potential financial risk to the Agency and administrative burden associated with effectively managing award fee contracts. The Agency's total obligated dollars for cost-plus award fee contracts (hereafter referred to as award fee contracts) more than doubled, increasing by 139% from FY 2010 to FY 2017.<sup>1</sup>

### Background

---

An award fee contract is a type of contract that provides an award fee payment based upon periodic evaluations of ongoing contractor performance. An award fee arrangement does not include predetermined targets or automatic fee adjustment formulas; instead, the award fee determination is a subjective one made unilaterally by the Government.

Award fee contracts are administered through an award fee plan that describes the criteria against which the contractor's performance is evaluated, the performance periods being evaluated, the structure of the evaluation team, and the processes that will be used to conduct the evaluation.

#### **NSA/CSS Award Fee Contract Universe**

To determine the universe of award fee contracts that had contract actions in FY 2016 and FY 2017, we asked the Program Management Office for Business Acquisition Management (BAM), the Agency's contracting documentation system, to provide a report for the OIG, which contained 54 award fee contracts.<sup>2</sup>

We initiated a data call to the Contracting Officers (COs) for each of these 54 contracts in which we requested copies of the following relevant contract documents:

---

<sup>1</sup> This data comes from the Corporate Data Warehouse (CDW), the Agency's central repository for Agency business data, as of 3 May 2018.

<sup>2</sup> A contract action is defined as an action resulting in a contract or a modification to a contract such as a change in funding or an administrative change. In response to a draft of this report, the Agency indicated that there were additional contracts awarded after the OIG obtained the contracting information. Our analysis is based on the snapshot of 54 contracts that had actions from FY 2016 and FY 2017.

- The contract cover page;
- Statement of Work;
- Cost-benefit analysis;
- Most recent award fee plan;
- Determination and Finding (D&F);
- Any other documentation related to the justification for using an award fee contract;
- Analysis performed and factors considered by the Agency in determining award fee percentage; and
- A history of available award fees and amounts earned by the contractor during the period of performance.

Data provided by COs for these contracts indicates that the average award fee percentage of the universe of the 54 contracts was 12% and that, on average, contractors earned \$12.5 million in award fees or 91% of the amount available under the contract.

### **Prior Inspector General Coverage**

In June 2006, we issued a report on the audit of award fee contracts (AU-06-0002, *Report on the Audit of Award Fee Contracts*, 29 June 2006) in which we found that the Agency lacked consistency in ensuring that award fees achieved their purpose by helping to control program risk and improve contractor performance. In addition, we noted that the limited capabilities of the acquisition database in use at that time, WARDANCE, made it impossible to determine if award fees in fact improved contractor performance and acquisition outcomes.

### **Regulatory Requirements**

As set forth in Federal Acquisition Regulation (FAR) §16.401(e)(1), an award fee contract is suitable for use when:

- (i) The work to be performed is such that it is neither feasible nor effective to devise predetermined objective targets applicable to cost, schedule, and technical performance;
- (ii) The likelihood of meeting acquisition objectives will be enhanced by using a contract that effectively motivates the contractor toward exceptional performance and provides the Government with the flexibility to evaluate both actual performance and the condition under which it was achieved; and
- (iii) Any additional administrative effort and cost required to monitor and evaluate performance are justified by the expected benefits documented by a risk and cost-benefit analysis, which must be documented in a D&F.

Additional requirements pertaining to award fee contracts are stipulated in FAR §16.401(e)(3), which states that all contracts providing for award fees shall be

supported by an award fee plan that establishes the procedures for evaluating award fees and an Award Fee Board for conducting the award fee evaluation. The regulation states that award fee plans shall:

- (i) Be approved by the FDO [Fee Determination Official] unless otherwise authorized by agency procedures;
- (ii) Identify the award fee evaluation criteria and how they are linked to acquisition objectives, which shall be defined in terms of contract cost schedule and technical performance; and
- (iii) Describe how the contractor's performance will be measured against the award fee evaluation criteria.

FAR §16.401(d) also states, "A determination and finding, signed by the head of the contracting activity, shall be completed for all incentive and award fee contracts justifying that the use of this type of contract is in the best interest of the Government. This determination shall be documented in the contract file...."

### DoD Guidance

On 1 April 2016, the Office of the Under Secretary of Defense (USD) issued *Guidance on Using Incentive and Other Contract Types*, which directs that objective criteria must be used, whenever possible, to measure contract performance.<sup>3</sup> Award fee incentives are to be used only when contract performance cannot be measured objectively. When an award fee contract is used, criteria shall be linked directly to contract cost, schedule, and performance outcomes. To the maximum extent possible, the criteria should be tied to identifiable outcomes, discrete events, or milestones.

With regard to the establishment of the award fee percentage or "pool" from which the award fee is determined, the USD memorandum provides that:

Establishing the award-fee pool is critical and requires careful consideration. Potential fees must be sufficient to provide motivation to achieve excellence in overall contractor performance. The potential fees should not be excessive for the effort contracted, nor should they be so low that the contractor has limited incentive to respond to Government concerns. There is no single approach required by FAR for establishing the amount of an award-fee pool.

As for the determination of the score and fee paid from within the award fee pool, the USD memorandum further explains:

The award-fee pool is the total of the available award fee for each evaluation period for the life of the contract. Since the available award fee during the evaluation period must be earned, the contractor begins each evaluation period with 0% of the available award fee and works up to the evaluated fee for each evaluation period. Contractors do not begin with 100% of the available award fee and have deductions taken to arrive at the evaluated

---

<sup>3</sup> Defense Federal Acquisition Regulation Supplement (DFARS) 216.401-71 likewise states, "Contracting Officers shall use objective criteria to the maximum extent possible to measure contract performance."

fee for each evaluation period. However, the potential for the contractor to earn 100% of the award fee amount should be a mutual goal as it demonstrates the program's objectives were clearly communicated and achievable.

The USD memorandum also states that DoD has generally moved away from the use of award fee contracts in favor of the preferred objective incentive arrangements. This shift has come about because of concerns that award fee contracts are limited in their ability to motivate contractors to control costs. Furthermore, there had been a number of instances where award fee earnings were inconsistent with contract outcomes. Therefore, the Department's policy, as set forth in the memorandum, is to limit use of award fee to those circumstances where it is not possible to identify specific objective criteria and a subjective assessment is appropriate to motivate and reward contractors for performance outcomes.

### **NSA/CSS Policy**

During the period covered by this review, the operative policy was NSA/CSS Policy 8-9, *Award Fee*, issued 4 December 2007, which established the proper use of award fee contracts and award fee provisions. On 16 May 2018, a new version of NSA/CSS Policy 8-9, *Award Fee Contracts*, was issued that supersedes the previous policy. The updated policy incorporates award fee guidance outlined in the 2016 USD Defense Procurement and Acquisition Policy memorandum discussed immediately above. In addition, the policy incorporates by reference Defense Federal Acquisition Regulation Supplement (DFARS) Subpart 216.4, *Incentive Contracts*, and DFARS Procedures, Guidance, and Information 216.4, *Incentive Contracts*, which provide DoD implementation guidance. Further, the new policy clarifies responsibilities for several key stakeholders because of Business Management and Acquisition's (BM&A) new organizational structure following NSA21. However, as detailed below, the new policy does not change the applicable standards in a number of key respects.

The original policy states that NSA/CSS shall use objective criteria whenever possible to measure contractor performance, but that award fee contracts shall be used when key elements of performance cannot be objectively measured. The requirement for the Agency to use objective criteria whenever possible to measure contractor performance is not explicitly stated in the new policy. However, that criteria remains applicable because the new policy incorporates by reference award fee guidance included in the USD Defense Procurement and Acquisition Policy memorandum that requires the use of objective criteria whenever possible to measure contractor performance.

The original policy was compliant with the regulatory requirement governing award fee contracts (FAR §16.401(e)(1)) that before deciding to utilize an award fee contract, the program office and the Contracting Officer (CO) should perform a cost-benefit analysis of the expected benefits versus the administrative costs. The new policy also is compliant with this aspect of the FAR in that it explicitly states: "Before deciding to utilize an award-fee contract, the program office and the Contracting Officer (CO) shall perform a cost-benefit analysis of the expected benefits versus the administrative costs and document this in the Determination and Findings (D&F)...."

Procedural guidance provided in both the original and revised policy states that additional factors the CO should consider before deciding on an award fee contract include the dollar value, complexity, and criticality of the procurement, the availability of Government resources to monitor and evaluate performance, and the benefits expected to result from such Government oversight.

Under the original policy, the maximum fees under an award fee contract were not to exceed 15% of total contract costs. The new policy provides a reference to pre- and post-award fee procedural guidance in the BM&A 8-2 Online Guide Process that includes award fee guidelines in a table of award fee pool ranges by contract activity type; the maximum award fee remains 15% under these new guidelines.

### **Procurement Office Award Fee Contracting Guide**

The Agency's Procurement Office (PO) developed this guide in 2007 as a practical aid for the BM&A workforce to improve award fee processes and help in serving their customers.<sup>4</sup> The goal of this guide is to provide standardization and direction to the workforce in identifying, structuring, and managing award fee contracts. The *PO Guide* addresses two significant requirements related to the selection of an award fee contract:

- Before deciding to utilize an award fee contract, the program office and CO must perform a cost-benefit analysis of the expected benefits versus the added administrative costs. The value added to the program by using an award fee type contract must be greater than the costs to administer it.
- If it is determined that objective criteria do not exist and it is appropriate to use an award fee contract, then the Head of Contracting Activity (HCA) must sign a D&F that the work to be performed is such that it is neither feasible nor effective to devise predetermined objective incentive targets applicable to cost, technical performance, or schedule.

### **Selecting Award Fee Contracts**

As required under FAR §16.104, *Factors in Selecting Contract Types*, the Agency considers a number of factors before selecting the proper type of contract. Among them are: price competition, price analysis, cost analysis, type and complexity of requirement, period of performance or length of production run, the contractor's technical ability and financial responsibility, the adequacy of the contractor's accounting system, concurrent contracts, and the extent and nature of proposed subcontracting and acquisition history.

According to the *PO Award Fee Contracting Guide*, award fee contracts have been widely used for the procurement of non-routine services where it is difficult to precisely define what is required and what constitutes good effort. A simple example is a contract for basic research in which it is extremely difficult to describe exactly what constitutes

---

<sup>4</sup> According to a Deputy Chief in Contracting, BM&A has initiated the process of revising the *PO Award Fee Contracting Guide* for compatibility with the recently Revised Policy 8-9, *Award Fee Contracts*.

successful research in purely objective terms. Award fee contracts can also be used to procure design, development, and initial fabrication of state-of-the-art hardware. Where technical challenges are difficult to predict, the award fee process allows the Government to assess the contractor's efforts in light of those technical problems and appropriately recognize their accomplishments (or lack thereof). Also, the areas of importance may fluctuate in unpredictable ways over the course of the contract and the award fee evaluation process can accommodate these changes.

Based upon the complexity and expected dollar value of an acquisition, the urgency of the requirement, and the availability of resources to monitor and evaluate the contractor's performance, the program office and the CO may decide that an award fee contract is appropriate. Because Agency and DoD policy generally require that objective criteria be used to measure contractor performance, before selecting an award fee contract, the Program Manager and CO should establish and document that such objective criteria do not exist. Once this has been completed, they must prepare a cost-benefit analysis to ascertain that the value of the expected benefits exceeds the costs to administer the award fee contract. If the results of the cost-benefit analysis support using an award fee contract, the CO prepares a D&F that must be signed by the HCA.<sup>5</sup> The cost-benefit analysis and the D&F are required to be maintained within the award fee contract file.

### **Developing and Administering the Award Fee Plan**

**Developing the Award Fee Plan:** After the selection of an award fee contract has been justified and approved, the award fee contract strategy must be documented in an award fee plan. The award fee plan establishes the evaluation criteria and the methodology and processes to be used for evaluating the contractor's performance, including specifying the available award fee percentage under the contract. It also sets forth the performance periods being evaluated and the structure of the evaluation team. The objective of the award fee plan is to obtain the highest level of performance achievable in all incentive areas.

**Administering the Award Fee Plan:** Award fee contracts require an increased level of Government oversight and a considerable amount of administrative activity in order to effectively ensure the award fees are being properly administered. Therefore, the typical administrative structure used by the Agency to administer award fee contracts includes a basic, three-level organizational structure made up of Performance Monitors, a Performance Evaluation Board (PEB) chaired by the Program Manager, and an FDO, whose responsibilities are described below:

---

<sup>5</sup> The requirement that the Head of Contracting Activity (HCA) sign the D&F is not addressed in Revised Policy 8-9, *Award Fee Contracts*. However, the policy states that pre- and post-award procedures regarding the use and execution of award fee contracts are located in the BM&A 8-2 Online Guide Process, specifically the "Develop Solicitation Documents" and "Determine Award Fee Processes." The latter process references the PO *Award Fee Contracting Guide*, which states: "If it is determined that objective criteria do not exist and that it is appropriate to use a cost-plus-award fee contract, then the [HCA] must sign a Determination and Finding (D&F)."

**Performance Monitors:** Monitors provide the continuous monitoring, evaluation, and assessment of the contractor's performance in specific assigned areas of responsibility. This, often daily, oversight is the foundation of the award fee evaluation process.<sup>6</sup>

**PEB:** The PEB, whose purpose is to evaluate the contractor's overall performance for the award fee evaluation period, typically consists of working-level specialists chosen for their ability to provide contractor performance assessment input. The PEB brings a broader management perspective to the evaluation process than exists at the performance monitor level.<sup>7</sup>

**Fee Determination Official:** The FDO reviews PEB recommendations and supporting documentation, and determines the actual amount of the award fee to be earned at the end of evaluation periods. The FDO must ensure that the amount and percentage of the award fee earned accurately reflects the contractor's performance. The FDO issues and signs the award fee determination report or letter that specifies the amount of the award fee and basis for that determination.<sup>8</sup>

Given our finding as to the absence of any justifications for the available award fee percentages established by the Agency in the contracts that we examined, we did not separately examine the process of developing and administering the award fee plans.

---

<sup>6</sup> Revised Policy 8-9, *Award Fee Contracts*, defines Award Fee Performance Monitors as "the assigned CORs [Contracting Officer's Representative] familiar with the mission and scope of the contract. They are approved by the PEB Chairperson to serve on the PEB.

<sup>7</sup> Revised Policy 8-9, *Award Fee Contracts* states: "the Primary Contracting Officer's Representative shall serve as the PEB Chairperson."

<sup>8</sup> Revised Policy 8-9, *Award Fee Contracts*, states that the Chief, Business and Contract Management Group shall serve as the FDO.

## II. FINDINGS AND RECOMMENDATIONS

### FINDING ONE: Neither the Use of Award Fee Contracts Nor the Fee Percentages Established Under the Contracts Were Properly Justified

***Fifty-four percent (29 of 54) of the Agency's award fee contracts that we examined from FY 2016 and FY 2017 did not have a valid Determination and Finding (D&F) in the contract file. In addition, 94% (51 of 54) of the files lacked documentation reflecting the required cost-benefit analysis supporting the use of these contracts. We also found that there was no documentation justifying the fee percentage established for any of the 54 contracts that we examined. Without proper justification and documentation of both the use of award fee contracts and the fee percentages established under the contracts, it cannot be determined if the use of award fee contracts and the fees paid pursuant to them are appropriate. As a result, the Agency cannot substantiate that its utilization of these contracts in these instances was in the best interests of the Government.***

#### The Use of Award Fee Contracts Was Not Properly Justified

##### **Determination and Findings Not Approved or Prepared**

As described above, the Federal Acquisition Regulation (FAR), Defense Federal Acquisition Regulation Supplement, DoD, and the Agency provide guidance to determine whether an award fee contract is a suitable contracting type. Two of the requirements in making this determination are a D&F document signed by the Head of Contracting Activity (HCA) and a cost-benefit analysis.

The PO *Award Fee Contracting Guide* also implements the FAR criteria by requiring that a D&F, signed by the HCA and justifying that the use of an award fee contract is in the best interest of the Government, be documented in the contract file. The PO *Guide* includes a sample D&F that provides language consistent with the requirement of the FAR and includes a location where the HCA should sign indicating approval of the use of an award fee contract.

We found that 29 of the Agency's 54 award fee contracts that we examined (54%) that had contract actions during FY 2016 and FY 2017 did not include a valid D&F. Twenty-one of the contract files had D&F documents that were not signed by the HCA, as required by FAR §16.401(d), and Contracting Officers (COs) were unable to locate D&Fs for eight award fee contracts. Moreover, the D&F template includes a place for the CO to sign the document as preparer. However, we found that 12 of the 21 documents not signed by the HCA also lacked the signature of the CO. We repeatedly inquired about these documents, but none of the COs offered an explanation to the OIG as to why the documents were missing or incomplete. Based upon our inquiries and

review of the contracting files, we believe that CO turnover and disorderly record-keeping practices are the most plausible explanations. Whatever the reason, the lack of valid D&Fs results in the 29 contracts not being compliant with the FAR or Agency policy and, therefore, not appropriately justified as being in the best interest of the Government.

### Cost-Benefit Analysis

Because award fee contracts involve considerable administrative oversight, FAR §16.401(e)(1)(iii) requires that a cost-benefit analysis be performed and included in the D&F in order to justify the use of an award fee contract. NSA/CSS Policy 8-9, *Award Fee*, December 2007, also requires that when utilizing an award fee contract, a cost-benefit analysis of the expected benefits versus the additional administrative costs of monitoring and evaluating the contractor's performance be prepared by the program office and the CO. According to the policy, this analysis should demonstrate that the value added to the program by using an award fee type is greater than the costs to administer the contract.<sup>9</sup>

### COs Not Preparing Cost-benefit Analysis

As indicated above, the FAR specifies that the cost-benefit analysis be included in the D&F. The sample D&F in the *PO Award Fee Contracting Guide* includes the statement "any additional administrative effort and cost required to monitor and evaluate performance are justified by the expected benefits." The *PO Guide* also states that to complete the cost-benefit analysis, the CO compares the quantitative administrative burden to the often-intangible benefits the Government receives through the award fee arrangement.

We found that 94% (51 of 54) of the contracts lacked documentation evidencing the required evaluation of expected administrative costs compared to the value of expected benefits such as dollars saved by tighter cost control or enhanced technical abilities. When we inquired why COs were not preparing the cost-benefit analysis, we obtained a variety of responses: for example, two COs appeared to be unaware of the cost-benefit analysis requirement, and one asked us how to prepare the analysis. In lieu of a cost-benefit analysis, several D&Fs included generic assertions such as:

- "Administering an award fee represents less than [x]% of the contract value,"  
or
- "Measuring contractor performance using fee as an incentive outweighed the administrative cost."

These generic assertions were not accompanied by any supporting calculation or analysis. In many cases, it appears that instead of preparing a cost-benefit analysis, COs may have been relying on the previously referenced statement contained in the

---

<sup>9</sup> Revised Policy 8-9, *Award-Fee Contracts*, issued 16 May 2018, also requires the program office and the CO to perform a cost-benefit analysis and to demonstrate that the value added to the program by using an award fee type is greater than the costs to administer the contract.

D&F template from the *PO Award Fee Contracting Guide*. However, the *PO Guide* does not suggest that this statement could or should serve as a substitute for the requisite cost-benefit analysis, and none of the generic and conclusory statements in the D&Fs we examined satisfy the FAR requirement for a cost-benefit analysis that demonstrates that the value added exceeds the additional cost of the administrative burden associated with an award fee contract.

### **Conclusion Regarding Contract Justification and Cost-Benefit Analysis**

Based on our review of contract documentation and discussions with COs, apart from the three award fee contracts supported by substantive cost-benefit analyses, we did not find justifications reflecting that the award fee contracts we examined had been determined to be the most appropriate contracting type. We asked the COs about this, but none of them were able to provide documentation of the analysis performed or factors considered in determining that award fee contracts were suitable; they said that it was not feasible or effective to devise predetermined objective incentive targets applicable to cost, technical performance, or schedule, and that performance could not be objectively measured. Contrary to the FAR and other Agency guidance described above, no documentation was provided reflecting a balancing of the benefit from such a contract versus the availability and cost of Government monitors to oversee it. In neither regard were the COs able to provide any substantive explanation for not completing these critical steps in determining that award fee contracts were justified and appropriate.

Because the award fee record-keeping deficiencies we found were so significant, there is not enough evidence for us to determine whether the use of award fee contracts was appropriate – both properly justified and in the best interests of the Government – in these instances. Therefore, we question the award fees for the 52 contracts that we examined that did not have either a valid D&F or a cost-benefit analysis.<sup>10 11</sup>

In response to a prior draft of this report, Business Management and Acquisition (BM&A) leadership indicated that they concurred with the OIG's findings and our conclusion that the use of this method of contracting had not been properly justified in the contract files. However, they further indicated that, after consultation with the NSA Office of the General Counsel, the Agency had determined that going back to try to remedy the deficiencies found by the OIG at this point would not be cost-effective, as it would require significant effort by an already understaffed workforce with no likely substantive benefits. In particular, BM&A indicated that the contract type and award fee pool were defined within the contracts and could not be unilaterally altered by the Government, even if a post-award review determined that an alternative type of contract would have been more appropriate. Further, BM&A indicated that a contractor would be unlikely to agree to a bilateral modification to alter the contract

---

<sup>10</sup> Questioned costs are incurred costs that are questioned because of an alleged violation of a provision of law, regulation, or other agreement or document governing the expenditure of funds.

<sup>11</sup> One of the three contracts for which there was a cost-benefit analysis lacked a D&F, so the total that did not meet one or both of these requirements was 52 of the 54 contracts.

type or lessen the fee pool unless it received comparable consideration to that which it expected to receive from the contract as awarded, which would result in no net benefit to the government. Additionally, BM&A pointed out that most of the contracts at issue in this review had already expired, and those that were still active were due to be renegotiated soon in any event.<sup>12</sup> BM&A also told the OIG that pre-acquisition meetings would have occurred to determine that all of the Agency’s award fee contracts were in the best interest of the government; however, they acknowledged that there was no supporting documentation for these meetings. For the reasons set forth above, they did believe that it was worth the expenditure of time and effort that would be required to document this process after the fact.

Going back to re-examine the Agency’s existing award fee contracts would have provided the Agency with an opportunity to provide evidence that the use of award fee contracts was appropriate – both properly justified and in the best interest of the Government – for the 52 contracts that we examined that did not have either a valid D&F or a cost-benefit analysis, thus possibly lowering the total costs that we question as a result of these deficiencies. However, in light of BM&A’s determination, and in the absence of any evidence that would warrant adjusting our findings, we question all of the costs from these 52 contracts as lacking sufficient documentation to justify the use of this method of contracting. Moreover, we continue to believe that it is essential that the Agency take action to ensure that its procedures regarding the use of this contracting method are appropriate.

<b>RECOMMENDATION AU-17-0008-1</b>
<p><b>Develop and implement procedures to ensure that D&amp;Fs and cost-benefit analyses are being properly completed, documented, and filed before executing award fee contracts.</b></p> <p style="text-align: right;"><b>LEAD ACTION: BM&amp;A</b></p>
<p style="text-align: center;"><b>Management Response</b></p> <p><b>AGREE</b> The Office of Contracting is updating the D&amp;F for use of Award Fee template to ensure that it includes the requisite cost-benefit analysis, which will be properly completed, documented, and filed before Contracting Officers execute award fee contracts. In addition, a Policy Reminder will be issued and disseminated to the Contracting workforce.</p> <p style="text-align: center;"><b>OIG Comment</b></p> <p>The planned action meets the intent of the recommendation.</p>

---

<sup>12</sup> This does not, of course, necessarily apply to more recent existing award fee contracts, as referenced in footnote 2 above. We pointed this out in response to BM&A; however, they maintained that there was not a sufficient likelihood of being able to renegotiate those contracts or otherwise achieve savings at this point to warrant additional action on their part to document the justification for the use of these contracts.

## Lack of Justification for Award Fee Percentages

---

### DoD Guidance

As referenced earlier in this report, the Office of the Under Secretary of Defense (USD) memorandum, *Guidance on Using Incentive and Other Contract Types*, provides in pertinent part that:

Establishing the award-fee pool is critical and requires careful consideration. Potential fees must be sufficient to provide motivation to achieve excellence in overall contractor performance. The potential fees should not be excessive for the effort contracted, nor should they be so low that the contractor has limited incentive to respond to Government concerns. There is no single approach required by FAR for establishing the amount of an award-fee pool.

The USD memorandum further states that the award-fee pool should be logically developed and consider factors such as the complexity of the work and the resources required for contract performance and the reliability of the cost estimate in relation to the complexity and duration of the contract task.

### Senior Acquisition Executive Guidance

In June 2010, the Senior Acquisition Executive (SAE) issued directive No. 10-001, *Award Fee Pool Bands for Contracts*, which was later incorporated into the BM&A web portal.<sup>13</sup> Table 1 below illustrates the expected range that award fees should fall into under the directive based on the following contract activity categories: Development, Sustainment, Systems Engineering and Technical Assistance (SETA) Services, Research, Architecture and Engineering, and Integration and Test. We found no other guidance or criteria for the Award Fee Pool Level bands, and neither this chart nor any other authority was cited by any of the COs in response to the OIG data call with regard to the bases for their award fee decisions.

---

<sup>13</sup> Award Fee Pool Bands are not included in revised Policy 8-9, *Award Fee Contracts*. However, in regard to the use and execution of award fee contracts, the policy refers to the BM&A 8-2 Online Guide Process, specifically the *Develop Solicitation Documents* and *Determine Award Fee* processes. The online processes direct the award fee team to review the *Award Fee Plan* template, which incorporates the Award Fee Pool Bands and suggests using them as guidelines when establishing the award fee pool.

**Table 1. Award Fee Pool Level Bands**

Award Fee Pool Level Bands	
Contract Activity Type	Award Fee Pool Range
Development	13% - 15%
Sustainment	10% - 13%
SETA Services	10% - 13%
Research	13% - 15%
Architecture and Engineering	12% - 14%
Integration and Test	12% - 14%

### No Justification for Award Fee Contract Percentages

In our *Report on the Audit of Award Fee Contracts* (AU-06-0002, 29 June 2006), we stated that we were not able to determine how award fees for contracts were set, what factors were considered, or what analysis had been done to support the percentages. When we asked during that audit how the award fee percentages were established, COs responded that the percentages were: a) based on how much the customer feels he wants to incentivize the contractor; b) generally determined by what the Government team comes up with—there is no specific policy; c) based on subjective analysis; or d) used the same percentage as the previous contract. We recommended that the *Award Fee Contracting Guide* be updated to incorporate a requirement for COs to retain a record of the analysis performed and factors considered in determining contract award fee percentages in the contract file. Management concurred with our recommendation and issued a policy reminder that the contract file negotiation memorandum should include this information.

The PO *Award Fee Contracting Guide* issued 24 April 2007 also states that when establishing award fee amounts for any contract type, the negotiator's memorandum must discuss the analysis performed and factors considered in determining award fee percentages. The PO *Guide* goes on to explain that such memoranda typically provide an overall detailed discussion of the contract negotiation activities in chronological order for the individual contracts so as to justify the applicable award fee pool. However, based upon the results of our data call, we believe that the policy reminder sent in response to the prior OIG report and the USD memorandum, the PO *Guide*, and the other guidance outlined above all have been ineffective because COs have not followed these authorities in establishing the award fee percentages available under the contracts. We reviewed the documents provided by the Agency and found no documentation justifying the award fee percentages established for any of the Agency's 54 award fee contracts that we examined. Our request for documentation explicitly asked the Agency to provide evidence of the analysis performed and factors considered in determining award fee percentages. However, none of the documentation provided by the Agency contained any information regarding their analysis or the factors that influenced their choice of a particular award fee percentage. Follow-up requests to the COs produced no additional insight into the process through which award fee percentages were selected.

The lack of justification of award fee percentages is particularly concerning given what we found to be the Agency's tendency to regularly pay high percentages of the award fee pool. Seventy-eight percent (42 of 54) of the contracts that we examined earned 90% or more of the available award fee, and only one contractor earned less than 75%. The guidance on "Using Incentive and Other Contract Types" issued by the DoD Office of the USD, as previously referenced, states, "Since the available award fee during the evaluation period must be earned, the contractor begins each evaluation period with 0% of the available award fee and works up to the evaluated fee for each evaluation period. However, the potential for the contractor to earn 100% of the award fee amount should be a mutual goal as it demonstrates the program's objectives were clearly communicated and achievable."

Our review of the contracts that we examined suggests that the award fees earned are indicative of contractors consistently performing at outstanding levels achieving program objectives over multiple evaluation periods. However, the high percentage of award fees earned could also reflect the supposition expressed to the OIG by some participants in the contracting process that award fee administrative procedures discourage individuals from rating contractor performance as less than optimal. For example, one individual stated that they were not permitted to assign a 70% award fee earned because the contractor had not been given formal notice. Furthermore, we noted in our review of award fee plans that approximately one-half of the plans included a clause titled "Interim Award Fee Feedback." This requires that if, at the mid-point of the award fee period, the Contracting Officer's Representative, CO, Government Program Manager, and/or the Fee Determination Official believe the contractor's mid-point award fee score is expected to be 75% or below, the CO will schedule a meeting with the contractor to provide formal feedback on the company's cost, schedule, technical performance, and any other pertinent issues. Interim discussions with contractors whose performance does not meet expectations can, of course, be beneficial and appropriate. However, the OIG believes that the additional administrative burden could have an unintended effect of causing an individual to provide a higher assessment of contractor performance than deserved. At the very least, the combination of unjustified use of award fee contracts and the recent history of paying large percentages of the award fee pool in the vast majority of cases cast doubt on whether the Agency's use of award fee contracts and the fees available to contractors pursuant to them are consistently appropriate.

### **Conclusion on Award Fee Percentages**

We reviewed the documents provided for the Agency's award fee contracts, and found no evidence supporting how available award fee percentages were set, what factors were considered, or what analysis had been done to support the percentages.

None of the documents provided to the OIG referenced the award fee guidance maintained on the BM&A website or demonstrated that individual award fee percentages were chosen based on the type of contract activity and the table of award fee pool ranges.<sup>14</sup> Furthermore, we saw no evidence that an analysis of motivational considerations or of unique factors, such as complexity of the work, the resources required for contract performance, and the reliability of the cost estimate, was taken into account in establishing the award fee percentage as stated in the DoD *Guidance on Using Incentive and Other Contract Types* memorandum. Such evidence was not documented in the contract file, and the COs with whom the OIG spoke were not able to provide any explanation for the lack of such documentation. Therefore, absent such documentation or explanation, we question the fees paid in all 54 contracts that we reviewed.

As with the prior section on contract justification, BM&A indicated in response to a prior draft of this report that it concurred with the OIG's findings regarding the lack of documentation supporting the award fee percentages in the contracts that we examined. However, it also again indicated that the Agency had determined that the time and effort required to go back and document the justifications for the award fee percentages established in the award fee plans for its existing contracts was not warranted in light of the lack of likely financial benefit to the Agency from such review. BM&A also reiterated its position that pre-acquisition meetings would have occurred with regard to all of these contracts to determine that the award fee pool determination was in the best interest of the Government; however, it acknowledged that there was no existing documentation supporting this.

Given that the Agency has not produced any evidence to the OIG supporting how available award fee percentages were set, what factors were considered, or what analysis had been done to support the percentages, the OIG continues to question the total costs of the 54 contracts in the amount of \$636 million earned over multiple years. We also continue to believe that it is essential that the Agency develop and implement procedures to ensure that appropriate analysis is performed and documented to support award fee percentages in the future.

---

<sup>14</sup> In response to a draft of this report, the Agency indicated that there was an SAE Management Directive (SMD No. 10-001) that included a chart that established the expected band award fee percentages depending upon the contract activity type. However, none of the COs for the 54 award fee contracts that we examined referenced this chart as justification for the award fee percentages established under the contracts.

<b>RECOMMENDATION AU-17-0008-2</b>
<p><b>Develop and implement procedures to ensure that appropriate analysis is performed and documented reflecting the factors considered in establishing available award fee percentages before these contracts are awarded and before available pools are established.</b></p> <p style="text-align: right;"><b>LEAD ACTION: BM&amp;A</b></p>
<p style="text-align: center;"><b>Management Response</b></p> <p><b>AGREE</b> The Office of Contracting is updating the D&amp;F for use of Award Fee template to ensure that appropriate analysis is performed and documented reflecting the factors considered in establishing available award fee percentages prior to contract award and establishment of award fee pools.</p> <p style="text-align: center;"><b>OIG Comment</b></p> <p>The planned action meets the intent of the recommendation.</p>

## FINDING TWO: The Agency Continues to Use Award Fee Contracts While DoD Moves Toward Objective Incentive Arrangements

***The number of Agency award fee contracts has been relatively constant from FY 2010 to FY 2017, both in number and as a percentage of overall contracts. Dollars obligated, meanwhile, have more than doubled, increasing by 139%. During the same timeframe, DoD award fee obligations declined from approximately \$34 billion to less than \$10 billion. Furthermore, NSA does not collect or analyze relevant data pertaining to incentive and award fees paid; therefore, it is not able to determine if award fee contracts have led to improved contractor performance or achieved desired program outcomes.***

### Guidance on Using Award Fee Contracts

---

On 1 April 2016, the DoD Director, Defense, Procurement and Acquisition Policy issued the document titled *Guidelines on Using Incentive and Other Contract Types* in which he states:

DoD has generally moved away from the use of award fee contracts in favor of the preferable objective incentive arrangements. This shift has come about because of concerns that award fee contracts are limited in their ability to motivate contractors to control costs. Furthermore, there had been a number of instances where award fee earnings were inconsistent with contract outcomes. Therefore, the Department's policy is to limit use of award fee to those circumstances where we are unable to identify specific objective criteria and a subjective assessment is appropriate to motivate and reward contractors for performance outcomes.<sup>15</sup>

This position is consistent with NSA/CSS Policy 8-9, which states that NSA/CSS shall utilize objective criteria, whenever possible, to measure contractor performance and that award fee contracts shall be used when key elements of performance cannot be objectively measured.

### NSA/CSS's Continued Use of Award Fee Contracts

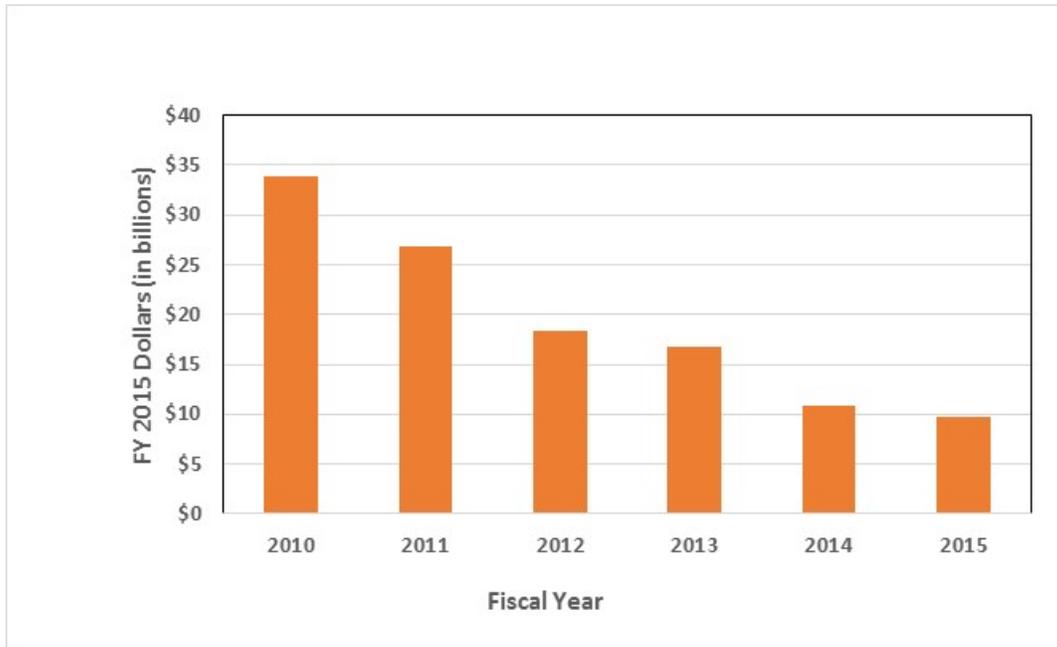
Despite the guidance described above, the Agency has continued to use and, in fact, significantly increased its obligations for award fee contracts. The OIG obtained data on Agency award fee contracts from FY 2010 through FY 2017 to determine whether the use of award fee contracts had changed following DoD guidance. While the total contract obligations could not be included in the unclassified version of this report, the Agency's obligated dollars for award fee contracts more than doubled, growing by 139% between FY 2010 and FY 2017. Meanwhile, the number and value of such award

---

<sup>15</sup> In response to a draft of this report, the Agency pointed out that the DoD policy also states that cost plus award fee contracts may be applicable for level of effort type work when DoD seeks to motivate excellence in quality, timeliness, technical ingenuity, and cost-effective management.

fee contracts as a percentage of total contract dollar obligated has been relatively constant during that same period. By contrast, Figure 1 reflects that between FY 2010 and FY 2015, there was a significant reduction in DoD obligations for award fee contracts from approximately \$34 billion to less than \$10 billion, consistent with its stated preference for objective incentive arrangements.<sup>16</sup>

**Figure 1. DoD Obligations for Award Fee Contracts by Fiscal Year\***



\* Source - Government Accounting Office (GAO) *DoD Needs Better Information on Incentive Outcomes* (GAO-17-291), Appendix V: Accessible Data, 11 July 2017

### Agency Does Not Evaluate the Effectiveness of Award Fees

---

FAR §16.401(f), *Incentive- and Award-Fee Data Collection and Analysis*, states:

Each agency shall collect relevant data on award fee and incentive fees paid to contractors and include performance measures to evaluate such data on a regular basis to determine effectiveness of award and incentive fees as a tool for improving contractor performance and achieving desired program outcomes. This information should be considered as part of the acquisition planning process...in determining the appropriate type of contract to be utilized for future acquisitions.

---

<sup>16</sup> Source – Government Accounting Office (GAO) *DoD Needs Better Information on Incentive Outcomes* (GAO-17-291), 11 July 2017. Data that would allow comparison of DoD award fee obligations to overall DoD obligations was not available in this report.

Despite paying hundreds of millions in award fees, the Agency has no comprehensive metrics to support whether or not its use of award fees has improved contractor performance and acquisition outcomes. BM&A management told the OIG that the Agency does not require collection and analysis of incentive and award fee data. In our *Report on the Audit of Award Fee Contracts* (AU-06-0002, 29 June 2006), we noted that the Agency's acquisition database at that time, WARDANCE, was not able to provide metrics that could enable the Agency to analyze whether award fee contracts produce better outcomes than other contract types. We noted that without the capability to identify, quantify, and extract key data, the Agency could not determine if award fee contracts are achieving their intended purpose and that including this capability in the automated system scheduled to replace WARDANCE would be extremely useful. However, the Agency's current contracting system, Business Acquisition Management (BAM), still does not allow Program Managers or COs to readily extract award fee evaluation data, specifically information reflecting how using an award fee contract motivated contractor performance and enhanced procurement objectives.<sup>17</sup>

The Agency must, as required by FAR §16.401(f), be able to quantify and extract key data such as contract type, award fee available, and award fee earned to be able to determine if award fees are working as intended. Without this information, the Agency is unable to evaluate the effectiveness of award fees as a tool for achieving desired program outcomes. In addition, relevant data on prior contracts would be useful in determining appropriate types of contracts to utilize in planning for future acquisitions, as suggested in the FAR. Conversely, without such information, the Agency may be disadvantaged in establishing incentive arrangements that achieve intended results and may be at risk of using award fee contracts inappropriately. Without collecting and analyzing this information, the NSA/CSS cannot ensure that it is using award fee contracts only when necessary to advance procurement priorities in accordance with its own and DoD policies.<sup>18</sup>

---

<sup>17</sup> In response to a draft of this report, the Agency pointed out that the Master Contract List (MCL) database, maintained by Contract Managers, contains relevant data, such as last award fee scores and past performance assessments. However, we found that the data is not consistently updated and no analysis is currently being conducted for this purpose.

<sup>18</sup> In response to a GAO recommendation regarding incentive outcomes, DoD indicated that it will establish a process/template to identify specific types of information to collect and assess the data after the completion of contract closeout to determine the extent to which incentives achieved their desired outcomes.

<b>RECOMMENDATION AU-17-0008-3</b>
<p><b>Collect and analyze incentive and award fee data; use the results to evaluate the extent of the use of, and the effectiveness of, award fee contracts and incentive fees in achieving desired program outcomes in accordance with FAR §16.401(f).</b></p> <p style="text-align: right;"><b>LEAD ACTION: BM&amp;A</b></p>
<p style="text-align: center;"><b>Management Response</b></p> <p><b>AGREE</b> The Business Analysis and Optimization Office, in coordination with the Office of Contracting, the Acquisition Resources and Analysis Office, and the BM&amp;A Technical Director will perform an analysis of the Master Contract List database to determine whether or not the information gathered there is sufficient for this analysis. If it is then the Business Analysis and Optimization Office, will develop an appropriate Plan of Action and Milestones. If not, the Business Analysis and Optimization Office will work with the Office of Contracting, the Acquisition Resources and Analysis Office, and the BM&amp;A Technical Director to determine what is the correct data needed, how we would acquire the data, and where the data will be stored for future assessments.</p> <p style="text-align: center;"><b>OIG Comment</b></p> <p>The planned action meets the intent of the recommendation.</p>

### III. CONCLUSIONS AND SUMMARY OF RECOMMENDATIONS

#### Conclusion

The OIG found in this audit that Agency award fee contracts and award fee percentages were not properly justified because Contracting Officers (COs) did not routinely substantiate the use of an award fee contract and no documentation was available justifying the award fee percentage established for each contract. Furthermore, we found that while DoD has moved toward more objective incentive arrangements, the Agency's obligations for award fee contracts have increased. Finally, we determined that the Agency does not collect and analyze incentive and award fee data that could be used to evaluate the effectiveness of award incentive fees as a tool for improving contractor performance and achieving desired program outcomes.

#### Recommendations to BM&A

---

##### **Recommendation AU-17-0008-1**

Develop and implement procedures to ensure that D&Fs and cost-benefit analyses are being properly completed, documented, and filed before executing award fee contracts.

Lead Action: BM&A

Status: Open

Target Completion Date: 03/29/2019

##### **Recommendation AU-17-0008-2**

Develop and implement procedures to ensure that appropriate analysis is performed and documented reflecting the factors considered in establishing available award fee percentages before these contracts are awarded and before available pools are established.

Lead Action: BM&A

Status: Open

Target Completion Date: 03/29/2019

##### **Recommendation AU-17-0008-3**

Collect and analyze incentive and award fee data; use the results to evaluate the extent of the use of, and the effectiveness of, award fee contracts and incentive fees in achieving desired program outcomes in accordance with FAR §16.401(f).

Lead Action: BM&A

Status: Open

Target Completion Date: 12/31/2019

#### IV. ABBREVIATIONS AND ORGANIZATIONS

BAM	Business Acquisition Management
BM&A	Business Management and Acquisition
CDW	Corporate Data Warehouse
CO	Contracting Officer
COR	Contracting Officer's Representative
D&F	Determination & Finding
DFARS	Defense Federal Acquisition Regulation Supplement
DoD	Department of Defense
FAR	Federal Acquisition Regulation
FDO	Fee Determination Official
FY	Fiscal Year
GAO	Government Accountability Office
HCA	Head of Contracting Activity
MCL	Master Contract List
PO	Procurement Office
NSA/CSS	National Security Agency/Central Security Service
OIG	Office of the Inspector General
PEB	Performance Evaluation Board
SAE	Senior Acquisition Executive
SETA	Systems Engineering and Technical Assistance
USD	Under Secretary of Defense

## APPENDIX: ABOUT THE AUDIT

### Objective

---

The overall objective of the audit was to evaluate whether governance of the Agency award fee process complied with applicable laws and policies, and was conducted economically and efficiently.

### Scope and Methodology

---

The audit fieldwork was conducted from May to December 2017. To determine the universe of award fee contracts that had contract actions in FY 2016 and FY 2017, we asked the Program Management Office for Business Acquisition Management (BAM), the Agency's contracting documentation system, to provide a report for the OIG, which contained 54 award fee contracts.

We initiated a data call to the Contracting Officers (COs) for each of these 54 contracts in which we requested copies of the following relevant contract documents:

- The contract cover page;
- Statement of Work;
- Cost-benefit analysis;
- Most recent award fee plan;
- Determination and Finding (D&F);
- Any other documentation related to the justification for using an award fee contract;
- Analysis performed and factors considered by the Agency in determining award fee percentages; and
- A history of available award fees and amounts earned by the contractor during the period of performance.

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 according to our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions according to our audit objectives.

### Use of Computer-Processed Data

---

With the exception of determining the universe of award fee contracts, we did not use computer processed data to address the audit objective or as a basis for our findings.

### Previous OIG Coverage

---

*Report on the Audit of Award Fee Contracts*, dated 29 June 2006, found that the Agency lacked consistency in documenting contracting rationales, updating award fee plans,

and developing and communicating an award fee approach to the workforce. In addition, limited capabilities of the acquisition database in use at the time of the audit (WARDANCE) made it impossible to determine if award fees had in fact improved contractor performance and acquisition outcomes. The audit also found that the Agency's ability to evaluate contractor performance was impeded by failure to document a basis for the award fee percentage, award fee plans that did not allow for meaningful ratings, the absence of formal training on how to administer award fee contracts, and inconsistent evaluation methodologies.

Recommendations made in our 2006 audit report included requiring that COs retain a record of the analysis performed and factors considered in determining contract award fees and that COs and Program Managers periodically review award fee plans to verify that criteria are appropriate and revise plans, when necessary, to reflect what the Agency wants to incentivize. In addition, the report recommended development of a mandatory training course for Contract Officer's Representatives and performance monitors on how to administer award fee contracts and the development of an Agency strategy for evaluating contractor performance on award fee contracts.

Management concurred with all recommendations and stated that they had taken appropriate corrective actions that resulted in closure of the recommendations.

## Assessment of Internal Controls

---

As part of the audit, we assessed the organization's control environment pertaining to the audit objectives, as set forth in NSA/CSS Policy 7-3, *Managers' Internal Control Program*, 17 October 2016. We reviewed the Business Management and Acquisition's (BM&A) Statement of Assurance and the consolidated Internal Controls Over Acquisition Function spreadsheet (ICOAF) for BM&A organizations, which the Agency management identified three material weaknesses.

We reviewed internal controls related to award fee contracts. Our review was limited to controls applicable to our audit objective as it relates to:

1. Control environment;
2. Risk assessment;
3. Control activities;
4. Information and communication; and
5. Monitoring.