Report No. DODIG-2016-045

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Inspector General

U.S. Department of Defense

FEBRUARY 8, 2016

DoD Could Save Millions in Profit Paid to Contractors on DoD Depot Labor

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Results in Brief

DoD Could Save Millions in Profit Paid to Contractors on DoD Depot Labor

February 8, 2016

Objective

Our objective was to determine if depot labor profit was being effectively negotiated on contracts using public-private partnerships at the Warner Robins Air Logistics Complex (depot). We nonstatistically selected 3 of the 33 partnerships and associated contracts at the depot to review.

Finding

The Air Force did not effectively negotiate depot labor profit. Specifically, contracting officials did not adequately reduce or eliminate profit and fees paid for work performed by the depot. This occurred because program officials either did not prepare or update the business case analysis supporting the partnership type selected. In addition, once the partnership type was selected, DoD guidance did not require contracting officials to:

- assess the depot at lower risk and reduce profit and fees when it was treated differently from other subcontractors, and
- eliminate profit and fees the contractor is paid on the depot non-repair costs since those expenses do not directly support the maintenance performed. The non-repair costs accounted for 69.3 to 78.4 percent of the total profit for the three contracts.

Finding (cont'd)

As a result, the three contractors will earn millions in profit and fees on low-risk DoD labor. If an alternative partnership type was selected, the Air Force could have eliminated all profit and fees on work performed by the depot. Alternatively, if the current partnership type was assessed and determined appropriate, contracting officials could have reduced profit and fees by $9.6 million by lowering depot profit risk or eliminated $24.9 million in profit and fees on non-repair costs. Without a proper assessment of the partnership type and specific guidance on calculating depot labor profit, contracting officials may not consider reducing these costs in their analysis, profit values will likely remain questionable, and an opportunity to save funds will be missed.

Recommendations

The Senior Center Contracting Official at Robins Air Force Base, Georgia, should require contracting personnel to document their contractor profit or fees considerations when depot employees perform the work including their reason if the depot is considered anything higher than low risk. Contracting personnel should also determine whether the contractor should be paid profit and fees on the non-repair costs included in the depot hourly rate.

The Commander, Air Force Sustainment Center, and the Commander, Air Force Life Cycle Management Center, should direct the responsible program offices to prepare or update a business case analysis evaluating the costs and benefits of the partnership type to include the impact on profit and fees.

The Director, Defense Pricing, Office of the Under Secretary of Defense for Acquisition, Technology, and Logistics, should issue guidance on the profit and fees earned on non-repair costs when the depot functions as a subcontractor.

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Results in Brief

DoD Could Save Millions in Profit Paid to Contractors on DoD Depot Labor

Management Comments and Our Response

The Director, Defense Pricing, Office of the Under Secretary of Defense for Acquisition, Technology, and Logistics and the Acting Assistant Secretary of the Air Force (Acquisition), fully addressed all specifics of the recommendations, and no further comments are required. Please see the Recommendations Table on the next page.

Recommendations Table

Management	Recommendations Requiring Comment	No Additional Comments Required
Director, Defense Pricing, Office of the Under Secretary of Defense for Acquisition, Technology, and Logistics		3
Commander, Air Force Sustainment Center		2
Commander, Air Force Life Cycle Management Center		2
Senior Center Contracting Official, Robins Air Force Base		1.a, 1.b

INSPECTOR GENERAL
DEPARTMENT OF DEFENSE
4800 MARK CENTER DRIVE
ALEXANDRIA, VIRGINIA 22350-1500

February 8, 2016

MEMORANDUM FOR UNDER SECRETARY OF DEFENSE FOR ACQUISITION, TECHNOLOGY, AND LOGISTICS
ASSISTANT SECRETARY OF THE AIR FORCE (FINANCIAL MANAGEMENT AND COMPTROLLER)

SUBJECT: DoD Could Save Millions in Profit Paid to Contractors on DoD Depot Labor (Report No. DODIG-2016-045)

~~(FOUO)~~ We are providing this report for information and use. The Air Force did not effectively negotiate $[redacted] million in profit and fees paid to three contractors for work performed by the Warner Robins Air Logistics Complex, Georgia, depot. Without a proper assessment of the partnership type and specific DoD guidance, profit values will remain questionable and an opportunity to save funds will be missed. We conducted this audit in accordance with generally accepted government auditing standards.

We considered management comments on a draft of this report when preparing the final report. Comments from the Director, Defense Pricing, Office of the Under Secretary of Defense for Acquisition, Technology, and Logistics and the Acting Assistant Secretary of the Air Force (Acquisition) addressed all specifics of the recommendations and conformed to the requirements of DoD Instruction 7650.03; therefore, we do not require additional comments.

We appreciate the courtesies extended to the staff. Please direct questions to me at (703) 604-9077 (DSN 664-9077).

Jacqueline L. Wicecarver
Jacqueline L. Wicecarver
Acting Deputy Inspector General
For Auditing

Contents

Introduction

Objective

Our objective was to determine if depot labor profit was effectively negotiated on contracts using public-private partnerships (PPP) at the Warner Robins Air Logistics Complex (WR-ALC). See Appendix A for a discussion of the scope and methodology and prior audit coverage related to the audit objective.

Background

A PPP is a cooperative arrangement between a DoD depot-level maintenance[1] activity and one or more private sector entities to perform DoD-related work or utilize DoD depot facilities and equipment. There are two primary types of PPP arrangements: a direct sales agreement (DSA) and a workshare arrangement (WSA).

- Under a DSA, a depot maintenance activity and a contractor enter into a contractual relationship for depot maintenance repair services. The contractor pays the depot maintenance activity for the repair services that are provided to the contractor for DoD-related work based on the depot labor hourly rate. The contractor can earn a profit on the work performed by the depot maintenance activity.
- Under a WSA, the contractor and the depot maintenance activity work as partners sharing the DoD-related repair work. Funding is not exchanged between the partners and the contractor does not earn a profit on the work performed by the depot maintenance activity.

To establish a PPP, program officials determine the partnership type to use and document the decision in a business case analysis (BCA).[2] Contracting officials are then provided the partnership type selected. If a DSA is selected, contracting officials will perform a risk assessment to support the amount of profit or fee to be earned by the contractor and award a contract.

[1] Depot-level maintenance includes manufacturing, repair, and technical services. Specifically within a PPP this can include the production of DoD-related goods and services.

[2] A BCA is a decision support document that identifies alternatives and presents convincing business, economic, risk, and technical arguments from which sound investment decisions can be made. This could include justifying the sustainment strategy and the benefits of a partnership between a Government entity and a contractor.

Warner Robins Air Logistics Complex Partnerships

WR-ALC, located at Robins Air Force Base, Georgia, provides depot maintenance, engineering support, and software development to major weapons systems such as the F-15, C-5, C-130, and C-17 aircraft. WR-ALC partners with different private sector contractors to perform depot maintenance. As of May 2015, WR-ALC had 33 partnerships with total depot revenue of $905 million.[3] We reviewed three nonstatistically selected contracts and associated partnerships to include the repair of the C-17 aircraft; AN/APN-241 Low Power Color Radar (AN/APN-241); and Digital Mapping System (DMS) and Advanced Display Core Processor (ADCP). Contracting officials estimated they will pay the contractors a total of $590.1 million[4] through FY 2019 in negotiated depot labor costs on the three contracts.[5]

For these partnerships, the contractors and the WR-ALC depot shared the repair responsibilities. If the WR-ALC depot repaired the items, they used Air Force facilities, equipment,[6] and personnel while the contractors provided the technical data, parts, and some engineering support. The WR-ALC depot was held accountable if it did not repair the item on time or did not perform quality work. DoD negotiated contract prices that included the hourly rate the contractors paid the WR-ALC depot and pay a profit or fee on the labor regardless of whether the contractor or the depot repaired the item.

WR-ALC and the contractors agreed that the depot will charge the contractors an hourly rate that recovers all repair and non-repair costs[7] associated with one hour of repair. The repair costs included direct labor costs. The non-repair costs included the depot's operating costs such as office supplies, depreciation of buildings, and military salaries. Contracting officials negotiated a profit or fee percentage for the contractor based on the total estimated costs, including repair and non-repair costs, of WR-ALC depot work.

C-17 Aircraft

The C-17 Globemaster III (C-17) is a heavy-lift aircraft manufactured by Boeing that transports personnel, vehicles, equipment, and other supplies in its large cargo bay, and can take off and land on short and rough runways. The Air Force uses the C-17 to support combat missions and humanitarian efforts. According to an Air Force official, Boeing and the WR-ALC initially established a partnership for

3 WR-ALC earned the $905 million in revenue from January 2003 through May 2015.

4 Negotiated labor costs for three programs will not total exactly due to rounding.

5 See Appendix A for details on the universe and sample selection.

6 According to Air Force officials, Honeywell does provide some equipment for the depot to use.

7 Direct and indirect costs are referred throughout the report as repair and non-repair costs.

repair of the C-17 in 2001. On October 1, 2011, the contracting officer awarded a 10-year, sole-source contract[8] to Boeing that provided sustainment and logistical support for the entire C-17 fleet at an estimated ceiling of $11.75 billion,[9] which included $552.6 million in WR-ALC depot labor costs.[10]

AN/APN 241 Low Power Color Radar

The AN/APN-241 is a high resolution radar system developed by Northrop Grumman that provides navigation capabilities for transport aircraft such as the C-130. Northrop Grumman and the WR-ALC initially established a partnership for repair of the AN/APN-241 in 2010. On September 29, 2013, the contracting officer awarded a contract[11] to Northrop Grumman for the repair of AN/APN-241 parts. The contract was a 3-year, sole-source, firm-fixed price contract, valued at $76.5 million, which included $30.4 million in WR-ALC depot labor costs.

Digital Mapping System and Advanced Display Core Processor

The DMS and ADCP developed by Honeywell Aerospace (Honeywell), are components of the F-15E aircraft. The DMS is a display interface that produces a map image of terrain, elevation, target points, or other mission data for F-15E pilots. The ADCP is the F-15E's central computer. On February 20, 2015, the contracting officer awarded a contract[12] to Honeywell for DMS and ADCP repair. The contract was a 5-year, sole-source, firm-fixed price contract, valued at $14.2 million, which included $7.2 million in WR-ALC depot labor costs.

Review of Internal Controls

DoD Instruction 5010.40[13] requires DoD organizations to implement a comprehensive system of internal controls that provides reasonable assurance that programs are operating as intended and to evaluate the effectiveness of the controls. Air Force internal controls over negotiating profit were effective as they applied to the audit objective. We will provide a copy of the report to the senior official responsible for internal controls at the Air Force.

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[8] The C-17 contract was contract number FA8526-12-D-0001. Contracts can be awarded on a "sole-source" basis when only one responsible source is identified that could satisfy the contract requirement.

[9] According to the C-17 System Program Office, the Air Force expects to spend $19 billion on the contract through September 2021.

[10] The $552.6 million in negotiated depot labor costs do not include revenue that could be earned by the WR-ALC depot over the FY 2018 through FY 2021 contract option period and only includes negotiated depot labor costs on the C-17 airframe maintenance portion of the partnership from FY 2012 through FY 2017.

[11] The AN/APN-241 Low Power Color Radar contract was contract number FA8538-13-D-0015.

[12] The DMS and ADCP contract was contract number FA8538-15-D-0002.

[13] DoD Instruction 5010.40, "Managers' Internal Control Program Procedures," May 30, 2013.

Finding

Contracting Officials Could Lower Profit on DoD Depot Labor

Contracting officials did not adequately reduce or eliminate profit and fees paid for work performed by the WR-ALC depot on three nonstatistically selected contracts.[14] This occurred because program officials either did not prepare or update the BCA to support the type of partnership selected. In addition, once a DSA partnership type was selected, DoD guidance did not require contracting officials to:

- assess the depot at lower risk and reduce profit and fees when it was treated differently from other subcontractors; and
- eliminate profit and fees the contractor is paid on the WR-ALC non-repair costs since those expenses do not directly support the maintenance performed.

~~(FOUO)~~ As a result, the three contractors will earn $[redacted] million in negotiated profit and fees on low-risk DoD labor. If program officials assessed the PPP type selected, they may have determined there was no continued benefit for the costs associated with a DSA and selected a different partnership type. This could have eliminated the $[redacted] million in contractor profit and fees on work performed by the WR-ALC depot. If program officials had assessed the partnership type and justified that a DSA was appropriate, the contracting officials could have reduced profit and fees by $9.6 million by lowering depot profit risk or eliminated $24.9 million in profit and fees on non-repair costs.[15] Without a proper assessment of the partnership type and specific guidance on calculating depot labor profit, contracting officials may not consider reducing these costs in their analysis, profit values will likely remain questionable, and an opportunity to save funds will be missed.

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14 As of May 2015, WR-ALC had 33 partnerships with total depot revenue of about $905 million. We nonstatistically selected three partnerships and contracts to review.

15 The estimated reductions are not completely independent and the $9.6 million and $24.9 million cannot be added together.

A Portion of Profit and Fees Applied to the Depot Hourly Rate is Questionable

~~(FOUO)~~ Contracting officials did not adequately reduce or eliminate profit and fees paid for work performed by the WR-ALC depot on three contracts. The contractors earned a profit or fee rate, between [redacted] percent and [redacted] percent, on work performed by the WR-ALC depot. The three contracts included $590.1 million in costs associated with WR-ALC depot work and an additional $[redacted] million in profit and fees earned on the depot work. Table 1 provides a breakdown of the WR-ALC depot labor costs and associated profit or fee by contract.

~~(FOUO)~~ Table 1. Profit and Fees Paid on WR-ALC Depot Labor

~~(FOUO)~~ Contract Number (Contractor)	Negotiated Depot Costs Excluding Profit/Fees	Negotiated Profit/Fee Percentage	Total Profit/ Fee Applied to Depot Labor
FA8526-12-D-0001 (Boeing)	$552,566,884	[redacted] [1]	$[redacted]
FA8538-13-D-0015 (Northrop Grumman)	$30,362,678	[redacted]	$[redacted] [2]
FA8538-15-D-0002 (Honeywell)	$7,158,339	[redacted]	$[redacted]
Total	**$590,087,901**	-	**$[redacted]** ~~(FOUO)~~

[1] ~~(FOUO)~~ Contracting officials negotiated a [redacted]-percent fee on the WR-ALC depot labor costs for the FY 2012 through FY 2014 contract period and a [redacted]-percent fee on WR-ALC depot labor costs for the FY 2015 through FY 2017 contract period.

[2] Totals may not equal the actual sum due to rounding.

~~(FOUO)~~ In accordance with DoD regulations,[16] contracting officials performed an analysis and developed a total profit objective for the three contracts. DoD regulations require that contracting officials assign a value to each profit risk factor including technical; management and cost control; and contract type risk to develop an objective profit percentage. A "normal value" represents average conditions when compared to all goods and services acquired by DoD. For all three contracts, contracting officials assigned a [redacted]. Contracting officials used the profit risk factors when developing the profit objective negotiated on total contract costs including depot labor.

[16] Defense Federal Acquisition Regulation Supplement 215.404-4, "Profit," December 11, 2014.

Business Case Analysis Needed

Program officials either did not prepare or update a BCA to support the partnership type selected. DoD policy[17] requires a BCA to support the partnership decision which considers the costs, benefits, and best use of public and private sector capabilities while demonstrating it is in the best interest of the Government. For the AN/APN-241 repair, program officials prepared a BCA in April 2009 that stated a WSA was selected. However, according to Air Force officials, the partnership type changed to a DSA in September 2009 without a BCA that addressed changes in the costs and benefits. If a change in the partnership type is made, program officials should update the BCA in order to address the potential changes in costs and benefits. For the DMS and ADCP repair, program officials established a partnership with Honeywell in 2003[18] and did not prepare a BCA. In 2013, a new partnership agreement between Honeywell and the depot was established and a BCA was not prepared that supported the costs and benefits of the partnership. As required by the DoD policy, program officials should have completed a BCA to support that the current partnership is the best strategy.

In addition, starting in March 2013, an Air Force regulation[19] required product support strategies, to include partnership strategies to support life cycle planning. The Air Force regulation also required the BCA to be reevaluated for acquisition category programs prior to any change in the product support strategy or every five years, whichever occurred first. C-17 program officials have not updated their BCA since September 2009.[20] As required by the Air Force regulation, the BCA should be updated and according to Air Force program officials, they expect to complete the update in 2016.

~~(FOUO)~~ Without preparing or updating a BCA that considered the partnership type, program officials did not adequately document their review of the costs associated with the partnership type selected. All three partnerships were DSAs, which allowed the contractors to earn profit on WR-ALC depot labor. The Air Force could have eliminated $[redacted] million in profit earned on depot labor if the program officials reviewed the partnerships, determined a DSA was not in the best interest of the Air Force, and chosen another partnership type that did not allow the contractors to earn profit on those costs. Program officials should complete or update a BCA that evaluates the partnership type by considering the costs, benefits, and best use of public and private sector capabilities to include the impact each type has on profit and fees.

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17 DoD Instruction 4151.21, "Public-Private Partnerships for Depot-Level Maintenance," April 25, 2007.

18 According to an Air Force official, the partnership with Honeywell was established in 2003. The depot began repairing DMS in 2003 and repair of the ADCP began in 2009.

19 Air Force Instruction 63-101/20-101, "Integrated Life Cycle Management," March 7, 2013.

20 ~~(FOUO)~~ Although the BCA did not consider the partnership-type impacts, according to a C-17 program official, the C-17 program office [redacted].

WR-ALC Depot Not Considered Lower Risk

~~(FOUO)~~ DoD guidance did not require contracting officials to assess the depot at lower risk, and thereby reduce profit, when it was treated differently from other subcontractors. A previous DoD OIG report[21] identified that contracting officials did not effectively negotiate profit on three Navy contracts. The report recommended the Director, Defense Pricing, Office of the Under Secretary of Defense for Acquisition, Technology, and Logistics (OUSD[AT&L]) issue guidance on evaluating risk when determining profit and fees on DoD depot labor. On March 28, 2014, the Director agreed with the recommendation and OUSD(AT&L) subsequently developed a proposed Defense Federal Acquisition Regulation Supplement (DFARS) rule that [redacted] As a result, we are not making a recommendation to OUSD(AT&L) specific to this issue.

A contractor, having contract responsibility for a depot's performance, should recoup their costs and earn a reasonable profit or fee on the depot's repair work. However, when calculating profit, contracting officials did not consider that using a DoD workforce lowered the contractor's risk and did not document why they considered the WR-ALC depot to be other than a low-risk subcontractor. Contracting officials should have lowered the contractor's risk, and subsequently profit, if they had considered the following factors when assessing technical; management and cost control; and contract type risk:

- Contracting officials included contract clauses that differentiated between other subcontractors and the WR-ALC depot. The contract clause, "Special Contract Requirements," was included in all three contracts and ensured that the contractors would not be responsible for the delay, nonperformance, or other noncompliance of WR-ALC depot work. Contractors would be held accountable for private sector subcontractor performance. For two of the three contracts, another clause also authorized the contractors to request an equitable adjustment if the rate charged by WR-ALC depot changed from the contractual amount. These clauses are unique to using a Government workforce and make using the WR-ALC depot labor less risky and different from other subcontractors. DFARS[22] states that a lower-than-normal risk factor could be assigned if contract provisions reduce the contractor's risk.

...contractors would not be responsible for the delay, nonperformance, or other noncompliance of WR-ALC depot work.

[21] DODIG-2014-064, "Improved Management Needed for the F/A-18 Engine Performance-Based Logistics Contracts," April 25, 2014.

[22] DFARS 215.404-71-3, "Contract Type Risk and Working Capital Adjustment," December 11, 2014.

- The C-17 aircraft, AN/APN-241, and DMS and ADCP programs have been in service from 10 to 22 years. During this time, the WR-ALC depot has had experience repairing these mature systems. For example, depot personnel have been repairing the DMS since 2003. In addition, all three contracts were follow-on efforts that previously used the WR-ALC depot to perform the repairs. DFARS allows a lower risk profit factor to be assigned if the program is mature and it is a follow-on or repetitive acquisition.
- According to Air Force program and depot officials, the contractors have employees at the depot, but the contractors do not perform daily management of the depot workforce. As a result, the contractor had a lower management risk for work activities performed at the WR-ALC depot. DFARS allows a lower risk profit factor to be assigned if the contractors add minimal value to an item.
- According to United States Code,[23] individuals who work for the Federal Government are not allowed to participate in a strike against the Government. Therefore, contractors were guaranteed a long-term, stable depot workforce.

Contracting officials should consider the impact that the contractual arrangement and lack of accountability for the depot has on the contractor's risk. By not lowering profit risk, contracting officials missed an opportunity that could have reduced the profit and fee earned by $9.6 million while still providing contractors a reasonable profit. Table 2 shows the questionable profit and fee earned by the contractors as a result of the contracting officials not assessing the depot as low risk.

~~(FOUO)~~ Table 2. Over $9.6 Million in Profit and Fees Could Have Been Reduced

~~(FOUO)~~ Contract Number (Contractor)	Negotiated Profit/Fee Percentage	DoD OIG-Calculated Profit/Fee Percentage[1]	Profit/Fee That Could Have Been Reduced
FA8526-12-D-0001 (Boeing)	[redacted]	4.09; 4.06	$7,567,969
FA8538-13-D-0015 (Northrop Grumman)	[redacted]	7.00	$1,486,895
FA8538-15-D-0002 (Honeywell)	[redacted]	7.00	$562,119
Total	-	-	**$9,616,983** ~~(FOUO)~~

[1] The DoD OIG calculated profit/fee percentage should have been the contracting official's objective profit percentage.

[23] Section 7311, title 5, United States Code, "Loyalty and Striking," September 6, 1966.

See Appendix B for more details on the reductions related to each contract and partnership we reviewed. Contracting officials should evaluate and document the degree of risk used to calculate profit and fees earned on work performed by WR-ALC depot employees and include an explanation in the contract file if the depot is not considered low risk.

Profit and Fees Applied to Non-Repair Portion of Depot Hourly Rate Could Be Eliminated

DoD guidance did not require contracting officials to eliminate profit and fees on the non-repair costs included in the WR-ALC depot hourly rate. A previous DoD OIG report[24] identified contracting officials charged profit on non-repair costs in the depot hourly rate on three Navy contracts. The report recommended the Director, Defense Pricing, OUSD(AT&L) issue guidance on the profit earned on non-repair costs when the depot functions as a subcontractor. On March 28, 2014, the Director agreed with the recommendation and OUSD(AT&L) subsequently developed a proposed DFARS rule that addressed profit and fees paid to contractors on work performed by DoD depots. However, the proposed rule did not specifically address profit and fees paid on the depot's non-repair costs. OUSD(AT&L) officials indicated that although the proposed DFARS rule did not address profit and fees on non-repair costs, contracting officers already have the ability to eliminate profit and fees paid on non-repair costs. Nonetheless, contracting officials responsible for the three contracts we reviewed did not eliminate profit on the depot's non-repair costs.

Contractors will receive $24.9 million in profit and fees on the non-repair costs included in the WR-ALC depot hourly rate that did not directly support the work performed under the contract. The non-repair costs included office supplies, military salaries, and depreciation for facilities. The contractors will receive considerably more profit on these non-repair costs than on the repair cost portion of the depot hourly rate. For example, non-repair costs accounted for 69.3 to 78.4 percent of the total profit or fee for the three contracts.

Contractors will receive $24.9 million in profit and fees on the non-repair costs...that did not directly support the work performed under the contract.

[24] DODIG-2014-064, "Improved Management Needed for the F/A-18 Engine Performance-Based Logistics Contracts," April 25, 2014.

According to OUSD(AT&L) Better Buying Power,[25] a contractor should earn higher profit if it manages a higher-risk subcontractor. Contracting officials should have lowered the contractor's risk by using WR-ALC as a subcontractor and subsequently lowered profit and fees earned. Another way to achieve efficiencies identified by OUSD(AT&L) and lower profit is to eliminate profit on costs that do not directly support the depot repair. Contracting officials had the ability to distinguish between the WR-ALC depot's repair and non-repair costs. According to OUSD(AT&L) officials, contracting officials have the ability to eliminate profit on non-repair costs. Therefore, contracting officials should use all available information to evaluate and, if warranted, avoid paying excessive profit on depot labor, including eliminating $24.9 million in profit the contractors earn on non-repair costs. Contracting officials should evaluate whether contractors should be paid profit on the non-repair costs in the WR-ALC depot hourly rate for future contract negotiations and include that determination in each price negotiation memorandum. OUSD(AT&L) also needs to issue guidance that specifically addresses contractor profit and fees on non-repair costs when subcontracted work is performed by a DoD depot.

Management Comments on the Finding and Our Response

Assistant Secretary of the Air Force (Acquisition) Comments

The Acting Assistant Secretary of the Air Force (Acquisition) disagreed with our finding. The Acting Assistant Secretary stated that our report infers that depot work is always low risk, while the level of risk is assessed case-by-case and addressed in the price negotiation memorandum when normal values are not used. The Acting Assistant Secretary stated that in the contract with Boeing for C-17 repairs, the Air Force negotiation memorandum clearly indicates the Air Force assessed the WR-ALC depot work as lower risk than the risk associated with nondepot work, with lower profit rates negotiated for the depot work line items. The Acting Assistant Secretary also stated that the 2015 C-17 follow-on negotiation included lower profit rates for depot work and that the price negotiation memorandum indicates a rationale for why the arrangement with Honeywell was assigned a higher-than-normal risk.

Additionally, the Acting Assistant Secretary disagreed with the report's linkage of BCAs to profit negotiations on depot work, and stated that BCAs drive acquisition strategies, but do not affect the determination of profit rates. The PPPs benefit

[25] OUSD(AT&L) Memorandum, "Better Buying Power: Guidance for Obtaining Greater Efficiency and Productivity in Defense Spending," September 14, 2010.

the Government because depot employees learn new skill sets from the contractor, which leads to a better prepared workforce in case a needed surge capability is required.

Our Response

We agree that the level of risk should be evaluated on a case-by-case basis and do not believe that depot work is always low risk; however, for the three partnerships and associated contracts reviewed, we identified that the depot was low risk. Using the DoD guidelines,[26] we determined that low risk was warranted for the following reasons:

- the maturity of the program;
- that the contractor would not be responsible for any delays, nonperformance, or other noncompliance of WR-ALC depot work; and
- that the contractor would be guaranteed a long-term, stable depot work force.

We believe that the contractor should earn a reasonable profit or fee on the depot's work if they are responsible for a depot's performance. However, contracting officials missed an opportunity to reduce or eliminate profit and fees for work performed by the WR-ALC depot.

We acknowledge that the Air Force paid a lower fee percentage on WR-ALC depot labor than on nondepot labor for C-17 repairs. However, we did not interpret that the Air Force lowered the fee percentage in the negotiation memorandum because the Air Force assessed the WR-ALC depot work as low risk. The fee was based on assigning a "normal value" for each of the risk factors evaluated. Contracting officials did not reduce the fee risk from normal to low risk when assessing the WR-ALC as a subcontractor. The contracting officials should have reduced the contractor's risk to low, which would subsequently reduce the fees paid, because of the three reasons identified above.

In addition, we acknowledge that the price negotiation memorandum for the Honeywell contract provided rationale for a higher-than-normal assignment for the management and cost control factor. However, we disagree that the depot was higher risk and believe that contracting officials should have lowered contractor risk on work performed by the WR-ALC depot. We assigned a lower risk factor because of the three reasons identified above and because Honeywell does not perform daily management of the depot workforce.

[26] Defense Federal Acquisition Regulation Supplement 215.404-4, "Profit," December 11, 2014.

Finally, we disagree that there is not a linkage between the BCA and profit negotiations. DoD policy[27] requires that the decision to enter a partnership must be supported by a BCA considering costs, benefits, and best use of public and private sector capabilities. The decision must demonstrate that the partnership is in the best interest of the Government. An Air Force regulation[28] also requires the program manager to include the reason for selecting a DSA partnership arrangement and use BCA evaluations of DSA arrangements and associated pass-through costs. While performing a BCA does not affect the profit negotiations, it does affect whether the contractor is allowed to earn any profit on work performed by the DoD depot. The BCA evaluations are used to support decisions related to the continued benefit of contract pass-through costs. If a DSA is selected, the contractor can earn profit on DoD depot labor. If a WSA is selected, the contractor cannot earn profit on DoD depot labor. Therefore, updating the BCA can ensure the partnership strategy continues to provide the best value alternative to support the warfighter.

Recommendations, Management Comments, and Our Response

Recommendation 1

We recommend that the Senior Center Contracting Official at Robins Air Force Base require contracting personnel, for future contract negotiations, to:

a. **Document in the contract file what considerations were made in determining any contractor profit or fee related to work performed by Warner Robins Air Logistics Complex depot employees. This should include evaluating the contractor's degree of risk in fulfilling contract requirements that are subcontracted to the depot employees and documenting why the Warner Robins Air Logistics Complex depot workforce is not considered low risk.**

Robins Air Force Base Contracting Office Comments

The Acting Assistant Secretary of the Air Force (Acquisition), responding on behalf of the Senior Center Contracting Official, Robins Air Force Base, agreed, stating that the Air Force Negotiation Team will document in the contract file the considerations made in determining any contractor profit or fee, including an evaluation of the contractor's degree of risk in using depot labor. To ensure compliance, the Senior Center Contracting Official sent a reminder to the contracting workforce emphasizing their responsibilities in this regard.

[27] DoD Instruction 4151.21, "Public-Private Partnerships for Depot-Level Maintenance," April 25, 2007.
[28] Air Force Instruction 63-101/20-101, "Integrated Life Cycle Management," March 7, 2013.

Our Response

The Acting Assistant Secretary of the Air Force (Acquisition), fully addressed the specifics of the recommendations, and no further comments are required.

> **b. Determine whether the contractor should be paid profit and fees on the non-repair costs included in the Warner Robins Air Logistics Complex depot hourly rate and include that determination in each price negotiation memorandum.**

Robins Air Force Base Contracting Office Comments

The Acting Assistant Secretary of the Air Force (Acquisition), responding on behalf of the Senior Center Contracting Official, Robins Air Force Base, agreed, stating that each acquisition has unique factors and thorough consideration is given to all risks associated with individual elements of the contractor total cost, which is documented in the price negotiation memorandum. To ensure compliance, the Senior Center Contracting Official sent a notice to the contracting workforce emphasizing their responsibilities in this regard.

Our Response

The Acting Assistant Secretary of the Air Force (Acquisition), fully addressed the specifics of the recommendations, and no further comments are required.

Recommendation 2

We recommend that the Commander, Air Force Sustainment Center, (for the AN/APN-241 Low Power Color Radar and the Digital Mapping System and Advanced Display Core Processor sustainment), and the Commander, Air Force Life Cycle Management Center, (for the C-17 aircraft), should direct the responsible program offices to prepare or update a business case analysis that evaluates the partnership type by considering the costs, benefits, and best use of public and private sector capabilities to include the impact each type has on profit and fees.

Air Force Sustainment Center and Air Force Life Cycle Management Center Comments

The Acting Assistant Secretary of the Air Force (Acquisition), responding on behalf of the Commander, Air Force Sustainment Center, and the Commander, Air Force Life Cycle Management Center, agreed, stating that the responsible program offices will prepare or update a BCA that shall, at a minimum, include the analysis of cost and benefits, and of core workload requirements, and best use of public and private sector capabilities that demonstrates that the partnership is in the best interests of the government.

Our Response

The Acting Assistant Secretary of the Air Force (Acquisition), fully addressed the specifics of the recommendation, and no further comments are required.

Recommendation 3

We recommend that the Director, Defense Pricing, Office of the Under Secretary of Defense for Acquisition, Technology, and Logistics, issue guidance to address profit and fees a contractor can earn on non-repair costs when the work is subcontracted to a DoD depot.

Under Secretary of Defense for Acquisition, Technology, and Logistics Comments

The Director, Defense Pricing, Office of the Under Secretary of Defense for Acquisition, Technology, and Logistics, agreed, stating that the Defense Acquisition Regulation Council is currently developing this guidance as part of an ongoing DFARS case.

Our Response

The Director, Defense Pricing, Office of the Under Secretary of Defense for Acquisition, Technology, and Logistics, fully addressed the specifics of the recommendation, and no further comments are required.

Appendix A

Scope and Methodology

We conducted this performance audit from May 2015 through November 2015 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 objective.

Universe and Sample Information

To determine if depot labor profit was being effectively negotiated on contracts using partnerships at WR-ALC, we obtained a universe of WR-ALC's 33 partnerships, which consisted of 24 DSAs and 9 WSAs. We nonstatistically selected three DSA partnerships and the associated contracts with the highest total depot revenue and that had recent work performed under the partnership. Specifically, we selected the following contracts and associated partnerships to review:

- According to an Air Force official, Boeing and WR-ALC established a partnership for repair of the C-17 in 2001.[29] Contract FA8526-12-D-0001 was awarded on October 1, 2011, to Boeing for $11.75 billion,[30] which included $552.6 million in negotiated WR-ALC depot labor costs.[31]
- Northrop Grumman and WR-ALC established a partnership for repair of the AN/APN-241 in 2010. Contract FA8538-13-D-0015 was awarded on September 29, 2013, to Northrop Grumman for $76.5 million, which included $30.4 million in negotiated WR-ALC depot labor costs.
- Honeywell and WR-ALC established a partnership for repair of the DMS in 2003 and ADCP in 2009. Contract FA8538-15-D-0002 was awarded on February 20, 2015, to Honeywell for $15.4 million, which included $7.2 million in negotiated WR-ALC depot labor costs.

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29 We only reviewed the portion of the C-17 partnership related to the repair of the C-17 airframe. WR-ALC depot also repairs C-17 avionics, software, and structures under the partnership.

30 According to the C-17 System Program Office, the Air Force expects to spend $19 billion on the contract through September 2021.

31 The $552.6 million in negotiated depot labor costs do not include revenue that could be earned by the WR-ALC depot over the FY 2018 through FY 2021 contract option period.

Review of Documentation and Interviews

To accomplish the audit objective, we reviewed applicable regulations and guidance including the Federal Acquisition Regulation; DFARS; DoD Instruction 4151.21, "Public-Private Partnerships for Depot-Level Maintenance," April 25, 2007; DoD 7000.14-R, "Financial Management Regulation," Volume 2B, Chapter 9, "Defense Working Capital Fund Budget Justification Analysis," December 2014; Office of the Assistant Secretary of Defense (Logistics and Materiel Readiness), "Public-Private Partnering for Sustainment Guidebook," February 1, 2012; Air Force Instruction 63-101/20-101, "Integrated Life Cycle Management," March 7, 2013; Air Force Instruction 65-509, "Business Case Analysis," September 19, 2011; and OUSD(AT&L) guidance.

If program officials prepared a BCA for the program, we reviewed it and interviewed responsible contracting and program officials from the Air Force Life Cycle Management Center and the Air Force Sustainment Center.[32] We then analyzed how the selected partnership type related to the amount of profit or fee applied to each contract.

We reviewed price negotiation memorandums and interviewed contracting officials to determine the dollar amount of depot labor on the contract, the repair and non-repair costs associated with depot labor, and how profit was applied to depot labor. We reviewed criteria and interviewed Air Force and OUSD(AT&L) officials to determine whether contracting officials should apply profit to both repair and non-repair costs and to discuss proposed DFARS changes related to profit paid on DoD depot labor.

We reviewed DFARS 215.404-71-2, "Performance Risk," December 11, 2014, to assess profit risk factors and determine the amount of profit or fee percentages that could have been reduced or eliminated for each contract. Using DD Form 1547, "Record of Weighted Guideline Application," we assigned values for technical; management and cost control; and contract type risk based on our analysis of the depot workforce and the contract clauses that applied to WR-ALC depot labor. Using those values, we calculated what the Air Force's profit objectives should have been if contracting officials considered the WR-ALC depot a low-risk subcontractor. See Appendix B for more details on the values chosen for each contract reviewed.

We reviewed the WR-ALC depot's hourly rates that applied to the partnerships in our sample to determine the amount of profit or fee paid on the WR-ALC's non-repair costs. Using the negotiated profit percentages for each contract, we calculated the amount of profit or fee paid on non-repair costs.

[32] The C-17 System Program Office and the contracting officials responsible for the contract were part of the Air Force Life Cycle Management Center. The program offices and contracting officials responsible for the AN/APN-241 and DMS and ADCP programs and contracts were part of the Air Force Sustainment Center.

Use of Computer-Processed Data

We relied on computer-processed data from DoD's Electronic Document Access (EDA) system and the Defense Industrial Finance Management System. EDA is a web-based system that stores contracts, contract modifications, delivery orders, and other contract file documentation. The Defense Industrial Finance Management System is a financial management and accounting system supporting the Navy, Air Force, and Marine Corps Depot Maintenance and Navy Research and Development business areas.

We obtained the contracts and delivery orders related to the partnerships we reviewed from EDA. We discussed the contracts and delivery orders obtained from EDA with WR-ALC contracting officials during a site visit at Robins Air Force Base. We used the contracts and delivery orders to obtain background information for each contract and determine which contract line items had depot labor associated with them. As a result of our discussions with WR-ALC contracting officials, we determined that the data within EDA were sufficiently reliable for the purposes of our audit.

We used data from the Defense Industrial Finance Management System to determine what portion of the WR-ALC depot's hourly rate was attributed to non-repair costs. Given that we used the data to illustrate that contractors earned profit on non-repair costs, we did not assess its reliability.

Prior Coverage

During the last 5 years, the Department of Defense Inspector General (DoD IG) issued two reports discussing profit earned by contractors on depot labor costs. Unrestricted DoD IG reports can be accessed at http://www.dodig.mil/pubs/index.cfm.

DoD IG

Report No. DODIG-2015-052, "Air Force Life Cycle Management Center's Management of F119 Engine Spare Parts Needs Improvement," December 19, 2014

Report No. DODIG-2014-064, "Improved Management Needed for the F/A-18 Engine Performance-Based Logistics Contracts," April 25, 2014

Appendix B

Profit or Fees Could Have Been Reduced or Eliminated

This appendix details the profit or fees that could have been reduced or eliminated for each contract had contracting officials considered the WR-ALC depot as a low-risk subcontractor[33] or eliminated the profit or fees paid on non-repair costs.[34]

C-17 Aircraft

~~(FOUO)~~ Boeing earned a [redacted]-percent fee on work performed by the WR-ALC depot for the FY 2012 through FY 2014 contract period and will earn a [redacted]-percent fee for the FY 2015 through FY 2017 contract option period. This will amount to $[redacted] million in fees applied to $552.6 million in WR-ALC depot labor. In addition, Boeing will earn fees for the FY 2018 through FY 2021 contract period, but as of September 2015, the rate had not been negotiated.

Using a DD 1547 "Record of Weighted Guidelines Application," we assigned the lowest value in the range for the management and cost control risk factor based on our analysis of the depot workforce and Boeing's involvement in the management of the depot workforce. We assigned a lower value to the contract type risk factor based on our analysis of the contract clauses that applied to WR-ALC depot labor. We did not question the technical risk factor assigned by contracting officials for the contract performance periods negotiated. This resulted in 4.09-percent fee for the FY 2012 through FY 2014 contract period and 4.06 percent for the FY 2015 through FY 2017 contract period. Table 3 shows the fees that could have been reduced had contracting officials assigned lower management and cost control, as well as contract type risk factors, when determining the fee Boeing would receive on WR-ALC depot labor costs.

~~(FOUO)~~ Table 3. Contracting Officials Could Have Reduced Fees Paid to Boeing

~~(FOUO)~~ Contract Performance Periods	Negotiated Fee Rate	DoD OIG-Calculated Fee Rate	Fees That Could Have Been Reduced
FY 2012 – FY 2014	[redacted]	4.09	$1,357,309
FY 2015 – FY 2017	[redacted]	4.06	$6,210,660
FY 2018 – FY 2021	Not Negotiated	-	-
Total	-	-	**$7,567,969** ~~(FOUO)~~

[33] The DoD OIG calculated profit/fee percentage should have been the contracting official's objective profit percentage.

[34] The estimated reductions for lowering risk and eliminating profit on non-repair costs are not completely independent and cannot be added together.

~~(FOUO)~~ Contracting officials also could have eliminated $[redacted] million in fees paid on the non-repair costs included in the hourly WR-ALC depot labor rate. The non-repair costs accounted for 69.3 percent of the total fee.

AN/APN-241 Low Power Color Radar

~~(FOUO)~~ Northrop Grumman will earn [redacted]-percent profit on the work performed by the WR-ALC depot from FY 2014 through FY 2016. This will amount to $[redacted] million in profit applied to WR-ALC depot labor costs. Using a DD 1547 "Record of Weighted Guidelines Application," we assigned the lowest values in the range for the technical, as well as, management and cost control risk factors based on our analysis of the depot workforce and Northrop Grumman's involvement in the management of the depot workforce. We also assigned the lowest value in the range to the contract type risk factor based on our analysis of the contract clauses that applied to WR-ALC depot labor. This resulted in 7-percent profit for the Northrop Grumman contract.

~~(FOUO)~~ If contracting officials assigned lower technical; management and cost control; and contract type risk factors when determining the profit amount Northrop Grumman would receive on WR-ALC depot labor costs, the Air Force could have reduced $1.5 million in profit paid to Northrop Grumman. Contracting officials also could have eliminated $[redacted] million in profit paid on the non-repair costs included in the hourly WR-ALC depot labor rate. The non-repair costs accounted for 76.5 percent of the total profit.

Digital Mapping System and Advanced Display Core Processor

~~(FOUO)~~ Honeywell will earn [redacted]-percent profit on work performed by the WR-ALC depot from February 2015 through FY 2019. This will amount to $[redacted] in profit applied to WR-ALC depot labor costs. Using a DD 1547 "Record of Weighted Guidelines Application," we assigned the lowest value in the range for the technical risk factor based on the fact that the DMS and ADCP repair contract is a follow-on effort, the DMS and ADCP programs are mature, and the WR-ALC depot workers have over 10 years of experience performing the repairs with no recent quality issues. We assigned the lowest value in the range for the management and cost control risk factor based on our analysis of the depot workforce and Honeywell's involvement in the management of the depot workforce. We also assigned the lowest value to the contract type risk factor based on our analysis of the contract clauses that applied to WR-ALC depot labor. This resulted in 7-percent profit for the Honeywell contract.

~~(FOUO)~~ If contracting officials assigned lower technical; management and cost control; and contract type risk factors when determining the profit amount Honeywell would receive on WR-ALC depot labor costs, the Air Force could have reduced $562,000 in profit paid to Honeywell. Contracting officials also could have eliminated $[redacted] in profit paid to Honeywell on the non-repair costs included in the hourly WR-ALC depot labor rate. The non-repair costs accounted for 78.4 percent of the total profit.

Management Comments

Office of the Under Secretary of Defense for Acquisition, Technology, and Logistics

OFFICE OF THE UNDER SECRETARY OF DEFENSE
3000 DEFENSE PENTAGON
WASHINGTON, DC 20301-3000

ACQUISITION,
TECHNOLOGY
AND LOGISTICS

DEC 2 3 2015

MEMORANDUM FOR PROGRAM DIRECTOR, ACQUISITION, PARTS, AND INVENTORY,
OFFICE OF THE INSPECTOR GENERAL

THROUGH: DIRECTOR, DEFENSE ACQUISITION RESOURCES AND ANALYSIS NS 12/23/15

SUBJECT: DoD Could Save Millions in Profit Paid to Contractors on DoD Depot Labor (Project No. D2015-D000AT-0182.000)

This is in response to your memorandum of November 17, 2015, requesting Defense Procurement and Acquisition Policy's comments on recommendation 3.

Recommendation 3: We recommend that the Director, Defense Pricing, Office of the Under Secretary of Defense for Acquisition, Technology, and Logistics, issue guidance to address profit and fees a contractor can earn on non-repair costs when the work is subcontracted to a DoD depot.

Response: Concur. The Defense Acquisition Regulation Council (DARC) is developing this guidance as part of DFARS Case 2015-D025 Profit/Fee for Work Performed by DoD Maintenance Depots and Other Organic Capabilities.

Please contact [redacted] if additional information is required.

Shay D. Assad
Director, Defense Pricing

Office of the Assistant Secretary of the Air Force (Acquisition)

Final Report Reference

DEPARTMENT OF THE AIR FORCE
WASHINGTON DC

OFFICE OF THE ASSISTANT SECRETARY

JAN 11 2016

MEMORANDUM FOR DODIG

FROM: SAF/AQ

SUBJECT: Management Comments for Department of Defense Inspector General (DoD IG), Project No. D2015-D000AT-0182.000, DoD Could Save Millions in Profit Paid to Contractor on DoD Depot Labor

1. AFSC/PK has reviewed the report of audit and provides the following comments with regard to the findings and recommendations in the report directed to the Senior Center Contracting Official at Robins Air Force Base for future contract negotiations:

Finding: Contracting officials did not reduce or eliminate profit and fees paid for work performed by the WR-ALC depot on three nonstatistically selected contracts. This occurred because program officials either did not prepare or update the BCA to support the type of partnership selected. In addition, once a DSA partnership type was selected, DoD guidance did not require contracting officials to:

- *reduce profit and assess the depot as low risk when it was treated differently from other subcontractors and*
- *eliminate profit and fees the contractor is paid on the WR-ALC non-repair costs since those expenses do not directly support the maintenance performed.*

Response to Finding: Disagree. Contracting officials assess risk factors in individual acquisitions in accordance with the DoD profit policy to establish profit objectives. While the DoD IG report infers depot work is always low risk, the level of risk is a case-by-case assessment addressed in the negotiation memorandum where normal (midpoint) values are not used. For example, in the C-17 Boeing contract reviewed by the DoD IG, the negotiation memorandum clearly indicates the Air Force assessed the depot portion as lower risk in this acquisition, with negotiated profit rates for line items covering depot work 3% below rates on line items not including depot work. Conversely, in the example of the Honeywell contract reviewed by the DoD IG, the negotiation memorandum clearly indicates rationale why this particular arrangement carried higher than normal risk. In the Honeywell negotiation, however, a blended rate was applied across the total contract, so the negotiation memorandum does not address separate rates by line item. The Air Force practice of assessing risk in depot work is further evidenced in a 2015 C-17 follow-on negotiation with Boeing, where line items with depot work were negotiated with profit rates 5% below line items without depot work. We disagree with the DoD IG report's linkage of BCA with affected profit negotiations on depot work, which is an inaccurate statement. BCAs drive acquisition strategies but do not affect the determination of profit rates. The partnerships that are established provide benefit to the government in that depot employees learn new skill sets from the contractor which also leads to a better prepared workforce in the case a needed surge capability is required.

Revised

Office of the Assistant Secretary of the Air Force (Acquisition) (cont'd)

Recommendation 1.a.: Document in the contract file what considerations were made in determining any contractor profit or fee related to work performed by Warner Robins Air Logistics Complex depot employees. This should include evaluating the contractor's degree of risk in fulfilling contract requirements that are subcontracted to the depot employees and documenting why the Warner Robins Air Logistics Complex depot workforce is not considered low risk. 2

Response 1.a: Concur with comment. The Air Force Negotiation Team (AFNT), as part of its structured approach using Weighted Guidelines (WGL) and fully documented in the Price Negotiation Memorandum (PNM), will ensure it documents in the contract file what considerations were made in determining any contractor profit or fee and includes evaluating the contractor's degree of risk in fulfilling contract requirements that are subcontracted to the depot employees. WGL inputs (values) will be justified and documented in the PNM if they vary from the normal values, and specifically, include documenting why the WR-ALC depot workforce is not considered low risk if determined such by the AFNT. Existing review and clearance procedures are adequate to ensure compliance with this recommendation; however, the Senior Center Contracting Official sent a reminder to the contracting workforce emphasizing their responsibilities in this regard. This action is complete.

Recommendation 1.b: Determine whether the contractor should be paid profit and fees on the non-repair costs included in the Warner Robins Air Logistics Complex depot hourly rate and include that determination in each price negotiation memorandum.

Response 1.b: Concur with comment. The mandatory tool that is used to develop the profit objective for the Government is the WGL. The AFNT develops a unique set of judgmental factors based on each individual acquisition after careful and thorough consideration of the risks associated with individual elements of contractor total cost, such as non-repair costs included in the depot hourly rate. This is accomplished in accordance with WGL procedures and then documented within the PNM. Existing review and clearance procedures are adequate to ensure compliance with this recommendation, however, the Senior Center Contracting Official sent a reminder to the contracting workforce emphasizing their responsibilities in this regard. This action is complete.

2. Air Force Sustainment Center (AFSC) and Air Force Life Cycle Management Center (AFLCMC) have reviewed the report of audit and provides the following comments with regard to the recommendations in the report:

The DoDIG found that the AF "did not effectively negotiate depot labor profit", specifically because "contracting officials did not reduce or eliminate profit or fees paid for work performed by the depot." The audit identified one of the causes of the issue as "program officials either did not prepare or update the business case analysis supporting the partnership type selected."

Recommendation 2: in order to remedy the issues they identified around BCA issues: "We recommend that the Commander, Air Force Sustainment Center, (for the AN/APN-241 Low Power Color Radar and the Digital mapping System and Advanced Display Core Processor sustainment used on the F-15, 15), and the Commander Air Force Life Cycle management Center, (for the C-17 aircraft), should direct the responsible program offices to prepare or update a business case analysis that evaluates the partnership type by considering the costs, benefits, and best use of public and private sector capabilities to include the impact each type has on profit and fees."

Office of the Assistant Secretary of the Air Force (Acquisition) (cont'd)

3

Response 2: Concur with comment. The responsible program offices will prepare or update a business case analysis that shall, at a minimum, include the analysis of cost/benefits, 50/50, Core workload requirements, and best use of public and private sector capabilities that demonstrates that the partnership is in the best interests of the government."

Rationale: DoDI 4151.21 requires, "6.5. The decision to enter into a partnership must be supported by a business case analysis considering costs, benefits, and best use of public and private sector capabilities that demonstrates that it is in the best interest of the government." AFI 63-101/20-101 elaborates, providing, "6.11.2. A BCA shall be prepared prior to approval of specific workload under public-private partnerships which at a minimum shall include the analysis of cost/benefits, 50/50, and Core workload requirements" and "6.11.6. The PM shall include the basis for selecting a DSA partnership arrangement in the LCSP. The PM will use BCA evaluations of DSA arrangements and associated pass through cost to support decisions related to the continued benefit of contract pass through cost." Our proposed response merely agrees to take actions that are already required under the policy, which what recommendation #2 is proposing.

3. My point of contact for this information is [redacted].

RICHARD W. LOMBARDI
Acting Assistant Secretary of the Air Force
(Acquisition)

Acronyms and Abbreviations

ADCP	Advanced Display Core Processor
BCA	Business Case Analysis
DFARS	Defense Federal Acquisition Regulation Supplement
DMS	Digital Mapping System
DSA	Direct Sales Agreement
EDA	Electronic Document Access
OUSD(AT&L)	Office of the Under Secretary of Defense for Acquisition, Technology, and Logistics
PPP	Public-Private Partnership
WR-ALC	Warner Robins Air Logistics Complex
WSA	Workshare Arrangement

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