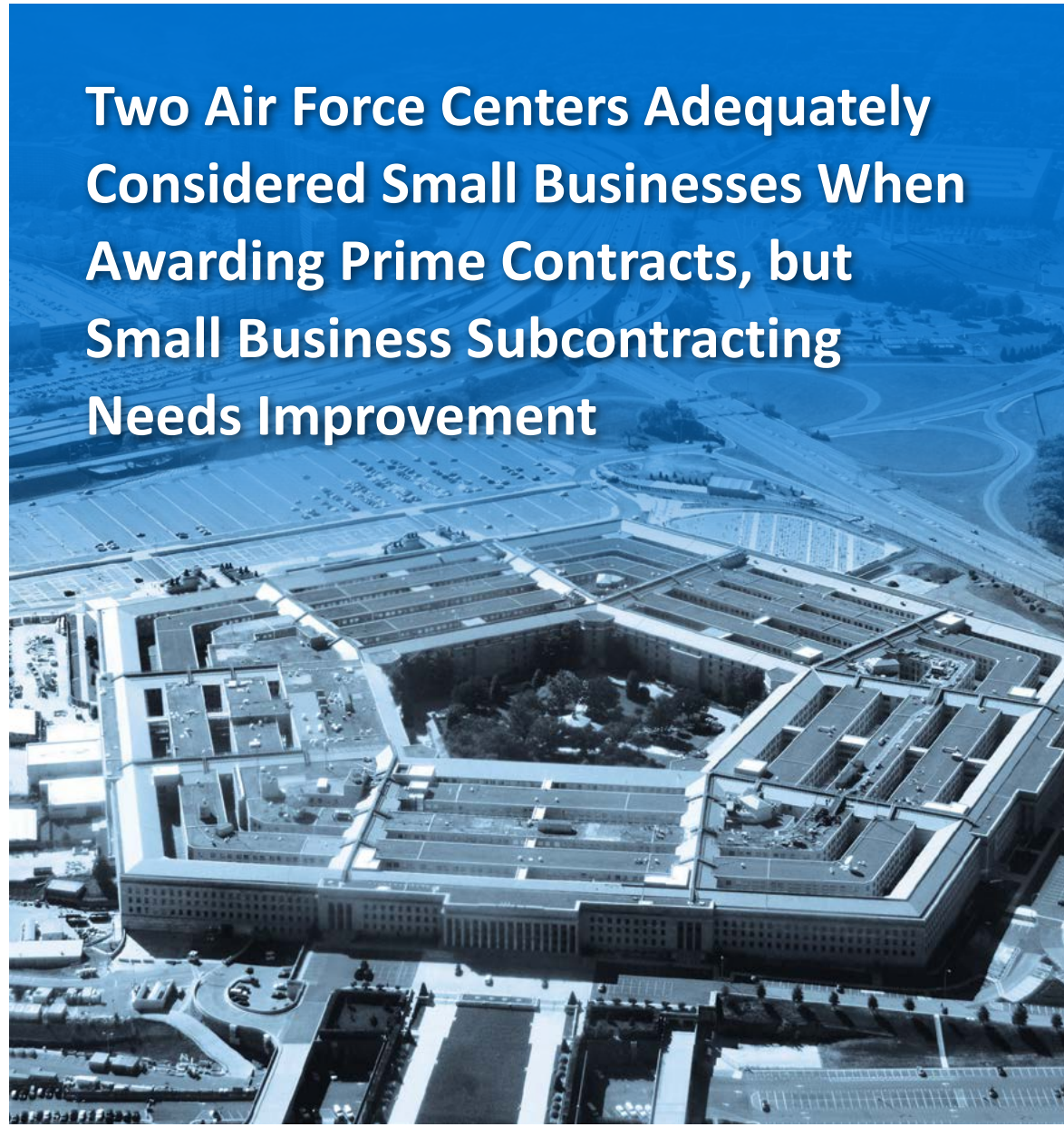




INSPECTOR GENERAL

U.S. Department of Defense

MARCH 31, 2017



Two Air Force Centers Adequately Considered Small Businesses When Awarding Prime Contracts, but Small Business Subcontracting Needs Improvement

INTEGRITY ★ EFFICIENCY ★ ACCOUNTABILITY ★ EXCELLENCE

Mission

Our mission is to provide independent, relevant, and timely oversight of the Department of Defense that supports the warfighter; promotes accountability, integrity, and efficiency; advises the Secretary of Defense and Congress; and informs the public.

Vision

Our vision is to be a model oversight organization in the Federal Government by leading change, speaking truth, and promoting excellence—a diverse organization, working together as one professional team, recognized as leaders in our field.



Fraud, Waste, & Abuse

HOTLINE

Department of Defense

dodig.mil/hotline | 800.424.9098

For more information about whistleblower protection, please see the inside back cover.



Results in Brief

Two Air Force Centers Adequately Considered Small Businesses When Awarding Prime Contracts, but Small Business Subcontracting Needs Improvement

March 31, 2017

Objective

We determined whether Air Force Life Cycle Management Center (AFLCMC) and Air Force Nuclear Weapons Center (AFNWC) contracting officials provided small businesses adequate opportunity to be awarded prime contracts. In addition, we determined what actions Air Force contracting officials at these locations took to ensure prime contractors met their small business subcontracting goals. We reviewed a nonstatistical sample of 53 contracts, valued at \$1.8 billion.

Findings

AFLCMC and AFNWC contracting officials provided small businesses with adequate opportunities to compete for all 30 prime contracts, valued at \$26.9 million, awarded in FY 2015. Specifically, AFLCMC and AFNWC contracting officials provided:

- adequate opportunities for small businesses to compete by conducting market research and advertising solicitations for 14 contracts, valued at \$14.8 million; and
- justifications for sole-source awards for 16 contracts, valued at \$12.0 million.

AFLCMC and AFNWC contracting officials generally ensured that prime contractors provided small businesses with adequate subcontracting opportunities for 13 contracts, valued at \$325.3 million, of 20 contracts, valued at \$350.2 million, with estimated completion dates in FY 2014

Findings (cont'd)

and FY 2015. However, AFLCMC contracting officials did not ensure prime contractors provided small businesses with adequate subcontracting opportunities for the other seven contracts, valued at \$24.9 million. Specifically, AFLCMC contracting officials did not:

- monitor prime contractors' compliance with individual subcontracting plans for four contracts, valued at \$10.9 million; and
- determine why prime contractors with individual subcontracting plans did not meet their small business subcontracting goals for three contracts, valued at \$14.0 million.

AFLCMC contracting officials stated that this occurred because administering subcontracting plans was not a high priority. In addition, AFLCMC contracting management did not provide training to contracting officers on requirements for administering subcontracting plans or adequate guidance or training for completing the "Subcontract Plan" field in the Federal Procurement Data System-Next Generation (FPDS-NG) (a Government-wide, web-based system for collecting, developing and disseminating procurement data). Completing the Subcontract Plan field properly enables the contracting officer to monitor compliance with small business subcontracting plans when a plan is required.

As a result, small businesses may have been denied subcontracting opportunities that large businesses were required to make a good-faith effort to provide. In addition, AFLCMC contracting officials did not determine whether prime contractors made a good-faith effort to comply with negotiated subcontracting goals and whether up to \$2.8 million in liquidated damages should be assessed.

In addition, we reviewed three high-dollar value contracts, valued at \$1.5 billion, awarded to other than small businesses during FY 2015. We found that those three contracts had approved subcontracting plans.



Results in Brief

Two Air Force Centers Adequately Considered Small Businesses When Awarding Prime Contracts, but Small Business Subcontracting Needs Improvement

Recommendations

We recommend that the Chief, Product Support Contracting Division, AFLCMC, correct the FPDS-NG and require the contractors to submit individual subcontracting reports in the Electronic Subcontracting Reporting System (a Government-wide, web-based system for small business subcontracting program reporting) for the three specified contracts. If the individual subcontracting reports show the contractors did not meet the contract's subcontracting goals, determine whether the contractor made a good-faith effort to meet its subcontracting goals, and if not, assess liquidated damages against the contractor. In addition, we recommend that the Chief determine whether the contractors for the three specified contracts made a good-faith effort to meet the small business subcontracting goals in their subcontracting plans, and if not, assess liquidated damages against the contractor.

We recommend that the Director, Contracting Directorate, Air Force Sustainment Center, Hill Operating Location, direct his staff to train AFLCMC and AFNWC, contracting officials on their Federal Acquisition Regulation subpart 19.7 responsibilities for administering subcontracting plans, and update their FPDS-NG training to include how to complete the "Subcontract Plan" field.

Management Actions Taken

During the audit, we informed the Chief, Product Support Contracting Division, AFLCMC, that AFLCMC needed to obtain individual subcontracting reports in the Electronic Subcontracting Reporting System for the three specified contracts and then determine whether the contractors made a good-faith effort to meet their subcontracting goals. We also informed the Chief that AFLCMC needed to determine whether the contractors made a good-faith effort to meet their subcontracting goals for three other specified contracts whose individual subcontracting reports indicated that the contractors had not met their subcontracting goals.

The Chief agreed with our observations. We verified that AFLCMC contracting officials corrected the FPDS-NG and obtained the missing individual subcontracting reports for the three specified contracts. For all six contracts, AFLCMC contracting officials determined that the contractors either exceeded their subcontracting goals or made a good-faith effort to meet their subcontracting goals.

We informed the Director, Contracting Directorate, Air Force Sustainment Center, Hill Operating Location, that his staff needed to train AFLCMC and AFNWC contracting officials on their Federal Acquisition Regulation subpart 19.7 responsibilities for administering subcontracting plans, update their FPDS-NG training to include how to complete the "Subcontract Plan" field, and update their FPDS-NG guidance to include how to complete the "Subcontract Plan" field.

The Director agreed with our observations. We verified that Contracting Directorate, Air Force Sustainment Center, Hill Operating Location personnel provided the necessary training to the AFLCMC and AFNWC contracting officials and updated their FPDS-NG guidance to include instructions on how to complete the "Subcontract Plan" field.

AFLCMC and AFNWC management actions taken during the audit addressed the recommendations; therefore, no further comments are required and the recommendations are closed. We provided a discussion draft of this report to AFLCMC and AFNWC on January 19, 2017. Neither AFLCMC nor AFNWC had any substantive comments on the discussion draft. We therefore did not require a written response, and we are publishing this report in final form. Please see the Recommendation Table on the next page for the status of the recommendations.

Recommendations Table

Management	Recommendations Unresolved	Recommendations Resolved	Recommendations Closed
Chief, Product Support Contracting Division, Air Force Life Cycle Management Center	None	None	B.1.a, B.1.b
Director, Contracting Directorate, Air Force Sustainment Center, Hill Operating Location	None	None	B.2.a, B.2.b, B.2.c

Note: The following categories are used to describe agency management’s comments to individual recommendations.

- **Unresolved** – Management has not agreed to implement the recommendation or has not proposed actions that will address the recommendation.
- **Resolved** – Management agreed to implement the recommendation or has proposed actions that will address the underlying finding that generated the recommendation.
- **Closed** – OIG verified that the agreed upon corrective actions were implemented.





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

March 31, 2017

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

SUBJECT: Two Air Force Centers Adequately Considered Small Businesses When Awarding
Prime Contracts, but Small Business Subcontracting Needs Improvement
(Report No. DODIG-2017-072)

We are providing this final report for information and use. Air Force Life Cycle Management Center and Air Force Nuclear Weapons Center contracting officials adequately considered small businesses when awarding prime contracts in FY 2015. However, contracting officials did not always determine whether prime contractors made a good-faith effort to comply with negotiated subcontracting goals. We conducted this audit in accordance with generally accepted government auditing standards.

During the audit, we advised Air Force Life Cycle Management Center and Air Force Nuclear Weapons Center contracting officials of contract oversight weaknesses we identified. Management agreed with our recommendations and immediately initiated steps to address our concerns. Air Force Life Cycle Management Center contracting officials corrected the Federal Procurement Data System–Next Generation for three contracts to indicate that an individual subcontracting plan was required. The contracting officials also required contractors to submit individual subcontracting reports to the Electronic Subcontracting Reporting System. In addition, Air Force Life Cycle Management Center contracting officials determined that the contractors for two contracts exceeded their subcontracting goals and the contractors for four contracts made a good-faith effort to meet the small business subcontracting goals in their subcontracting plans. Also, the Contracting Directorate, Air Force Sustainment Center, Hill Operating Location personnel updated and provided training to contracting officials in November 2016. These actions resolved each concern we identified; therefore, we will not make any additional recommendations.

We appreciate the courtesies extended to the staff. Please direct questions to me at (703) 604-9187.

A handwritten signature in black ink, appearing to read "M. Roark", is positioned above the typed name.

Michael J. Roark
Assistant Inspector General
Contract Management and Payments



Contents

Introduction

Objective	1
Background	1
Contracts Reviewed	3
Review of Internal Controls	4

Finding A. AFLCMC and AFNWC Officials Adequately Considered Small Businesses When Awarding Prime Contracts

5

Small Businesses Had Opportunities to Be Considered for Contracts	5
AFLCMC and AFNWC Properly Justified Sole-Source Contracts	7
AFLCMC and AFNWC Generally Coded Contractor Business Size in the FPDS-NG Properly	8

Finding B. AFLCMC and AFNWC Did Not Consistently Ensure Subcontracting Opportunities Were Provided for Small Businesses

9

AFLCMC and AFNWC Complied With Requirements for Subcontracting Plans for 13 Contracts With Estimated Completion Dates in FY 2014 and FY 2015	10
AFLCMC Did Not Ensure Prime Contractors Provided Small Businesses With Adequate Subcontracting Opportunities for Seven Contracts With Estimated Completion Dates in FY 2014 and FY 2015	12
Administering Subcontracting Plans Was Not a High Priority	14
Contracting Management Did Not Provide Training on Requirements for Subcontracting Plans	14
AFLCMC Guidance and Training for Completing the Subcontract Plan Field in the FPDS-NG Was Inadequate	15
Opportunities to Recoup Liquidated Damages May Have Been Missed	15
Other Matters of Interest on Subcontracting With Small Businesses for Contracts Awarded in FY 2015	16
Recommendations	17

Contents (cont'd)

Appendixes

Appendix A. Scope and Methodology	21
Work Performed	22
Use of Computer-Processed Data	24
Prior Coverage	24
Appendix B. Summary of Contracts Reviewed	27
Acronyms and Abbreviations	30

Introduction

Objective

We determined whether Air Force Life Cycle Management Center (AFLCMC) and Air Force Nuclear Weapons Center (AFNWC) contracting officials provided small businesses adequate opportunity to be awarded prime contracts. In addition, we determined what actions AFLCMC and AFNWC contracting officials at these locations took to ensure prime contractors met their small business subcontracting goals. This audit is part of a series of audits on DoD small business contracting. We audited the two contracting centers at Hill Air Force Base because they had the highest number and dollar value of applicable contracts in the Air Force. See Appendix A for scope and methodology and prior audit coverage related to the objectives.

Background

Air Force Materiel Command

Air Force Materiel Command conducts research, development, and test and evaluation, and provides acquisition management services and logistics support necessary to keep Air Force weapon systems ready for war. Air Force Materiel Command is headquartered at Wright-Patterson Air Force Base, Ohio. Air Force Materiel Command has six centers—Air Force Installation and Mission Support Center, AFLCMC, AFNWC, Air Force Research Laboratory, Air Force Sustainment Center, and Air Force Test Center. The centers are located at eight Air Force bases. We visited two AFLCMC contracting branches (Munitions Sustainment and F-16) and one AFNWC contracting branch¹ (Ground Systems Support) located at Hill Air Force Base, Utah.

The AFLCMC Munitions Sustainment branch is under the Armament directorate. The Munitions Sustainment branch acquires, manages, and supports fielded Air Force conventional munitions, explosive ordnance disposal tools and equipment, aircraft energetic components, and fuel tanks.

The AFLCMC F-16 branch is under the Fighter and Bomber directorate. The F-16 branch develops and executes acquisition strategies in support of U.S. Air Force, European Participating Air Forces, and foreign military sales for the F-16 “Fighting Falcon.”

¹ The AFNWC Intercontinental Ballistic Missile division was reorganized in April 2015. Therefore, contracts we reviewed that were awarded before April 2015 were awarded by multiple branches under the division.

The AFNWC Ground Systems Support branch is under the Intercontinental Ballistic Missile Contracting division. The division is responsible for managing Minuteman weapon systems. The Intercontinental Ballistic Missile Contracting division develops, acquires, and supports silo-based intercontinental ballistic missiles and provides program direction and logistics support to the customer. It is also responsible for acquisition and systems engineering. The Intercontinental Ballistic Missile Contracting division manages equipment spares, provides storage and transportation, and performs modifications and equipment replacement to sustain silo-based intercontinental ballistic missile systems.

Small Business Contracting

The Small Business Act² established Government-wide programs to help small businesses obtain a fair proportion of Government contracts and created the Small Business Administration to oversee the small business procurement process across Federal agencies. The Small Business Act ensures that the Government-wide goal for participation of small business concerns is established annually. It also authorizes Federal agencies to reserve or “set aside” a proportion of their contracts for small businesses.

Small Business Prime Contracts

A set-aside is based, in part, on the value of the goods or services that the Government is looking to purchase. Every Federal Government purchase anticipated to be valued from \$3,500 to \$150,000 is automatically set aside for small businesses as long as there are at least two companies (also known as the Rule of Two) that are competitive in terms of market prices, quality, and delivery.³ If the contracting officer does not proceed with the small business set-aside, and purchases on an unrestricted basis, the contracting officer must explain in the contract file the reason for the unrestricted purchase. Contract opportunities over \$150,000 can be set aside for small business participation when there is a reasonable expectation that the Rule of Two is met. Typically, the contracting officer’s decision to set aside a contract opportunity for small businesses is based on the market research that contracting officials perform to find qualified small business vendors.

² 15 United States Code §§ 631-657s, “Aid to Small Business.”

³ According to FAR 19.502-1(b), automatic set-asides do not apply to purchases less than \$3,500.

Subcontracting With Small Businesses

Contracts over \$700,000 (\$1.5 million for construction) awarded to an other than small business must have a small business subcontracting plan if there are subcontracting opportunities so that small businesses can get work under these large contracts.⁴

Tracking Small Business Contracting Goals

The Small Business Administration uses the Federal Procurement Data System–Next Generation (FPDS-NG) as the official system for collecting, developing, and disseminating procurement data. The Small Business Administration also uses the FPDS-NG information to monitor agencies’ achievements against their small business goals throughout the year. Air Force officials rely on data from the FPDS-NG to track how well they are meeting their small business goals. The Air Force sets overall goals for prime contracting with small businesses but does not set overall goals for subcontracting with small businesses.

Air Force Prime Contracting Goals

In FY 2015, the Air Force had a goal to award 16.1 percent of prime contracting dollars to small businesses. The Air Force reported exceeding the goal, awarding 18.7 percent of prime contracting dollars to small businesses. In FY 2016, the goal was to award 17.9 percent of prime contracting dollars to small businesses. The Air Force again reported exceeding the goal, awarding 18.3 percent of prime contracting dollars to small businesses.

Contracts Reviewed

We used the FPDS-NG⁵ to identify the universe of Air Force contracts. During FY 2015, the Air Force awarded 5,778 contracts,⁶ valued at \$681.1 billion, to other than small businesses. We selected Hill Air Force Base based on the large number of contracts awarded and the dollar value of contracts awarded—341 contracts, valued at \$5.3 billion. We nonstatistically selected 33 contracts that were not awarded to small businesses, valued at \$1.5 billion, awarded by two AFLCMC contracting offices and one AFNWC contracting office to

⁴ FAR 19, “Small Business Programs,” Subpart 19.7, “The Small Business Subcontracting Program,” 19.702, “Statutory Requirements.”

⁵ A Government-wide, web-based system for collecting, developing and disseminating procurement data.

⁶ For this audit, we limited our universe to definitive contracts, indefinite-delivery indefinite-quantity contracts, and purchase orders.

review. We selected the 33 contracts to get a mix of definitive contracts, purchase orders, indefinite-delivery indefinite-quantity contracts, and competitive versus sole-source contracts. Specifically, we reviewed:

- 30 contracts, valued at \$26.9 million, to determine whether contracting officials provided small businesses an adequate opportunity to be awarded prime contracts (Finding A);
- 12 contracts,⁷ valued at \$1.5 billion, to determine whether those contracts had an approved subcontracting plan or a determination that no subcontracting possibilities existed. (Finding B)

In addition, we nonstatistically selected 20 contracts, valued at \$350.2 million, with estimated completion dates in FY 2014 or FY 2015⁸ to determine whether contracting officials ensured prime contractors provided small businesses with adequate subcontracting opportunities (see Finding B). In total, we reviewed 53 contracts, valued at \$1.8 billion. See Appendix B for a summary of the 53 contracts we reviewed.

We also performed a limited review of 135 contracts awarded by AFLCMC and AFNWC to determine whether the contractor's business size in the FPDS-NG was accurately coded.

Review of Internal Controls

DoD Instruction 5010.40 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.⁹ We identified internal control weaknesses in AFLCMC contracting officers' monitoring of subcontracting plans. Specifically, AFLCMC contracting officials did not ensure prime contractors provided small businesses with adequate subcontracting opportunities for 7 contracts of 20 contracts with estimated completion dates in FY 2014 and FY 2015. However, management initiated a series of corrective actions to resolve the concerns we identified; therefore, we will not make any additional recommendations in this report. We will provide a copy of the report to the senior official responsible for internal controls in the Department of the Air Force.

⁷ The numbers do not add up to 33 because 9 of the 12 contracts were included in the review of the 30 contracts to determine whether contracting officials provided small businesses an adequate opportunity to be awarded prime contracts.

⁸ When contracts are completed, contracting officials can determine whether the contractor met its small business subcontracting goals, and if not, whether the contractor made a good-faith effort to meet the goals. If the contractor did not make a good-faith effort to meet its goals, then contracting officials can assess liquidated damages.

⁹ DoD Instruction 5010.40, "Managers' Internal Control Program Procedures," May 30, 2013.

Finding A

AFLCMC and AFNWC Officials Adequately Considered Small Businesses When Awarding Prime Contracts

AFLCMC and AFNWC contracting officials adequately considered small businesses when awarding all 30 prime contracts we reviewed, valued at \$26.9 million,¹⁰ in FY 2015. Specifically, AFLCMC and AFNWC contracting officials provided:

- adequate opportunities for small businesses to compete by conducting market research and advertising the solicitations for 14 contracts, valued at \$14.8 million; and
- justifications for sole-source awards for 16 contracts, valued at \$12.0 million.

In addition, AFLCMC and AFNWC contracting officials properly coded the business size in the FPDS-NG for 132 of 135 contracts we reviewed.¹¹ We notified AFLCMC and AFNWC contracting officials about the coding errors for the other three contracts, and the officials made corrections during our audit.

Small Businesses Had Opportunities to Be Considered for Contracts

AFLCMC and AFNWC contracting officials provided small businesses adequate opportunities to compete for 14 contracts, valued at \$14.8 million. AFLCMC awarded 11 contracts and AFNWC awarded the other 3 contracts. Specifically, AFLCMC and AFNWC contracting officials used market research to determine whether small businesses were capable of performing the work and advertised the solicitations on the Federal Business Opportunities (FedBizOpps) procurement website.

AFLCMC and AFNWC Effectively Conducted Market Research

AFLCMC and AFNWC contracting officials conducted market research on all 14 competed contracts. The Federal Acquisition Regulation (FAR) states that agencies must generally conduct market research appropriate to the circumstances before soliciting offers for acquisitions with an estimated value in excess of the simplified acquisition threshold (\$150,000).¹²

¹⁰ Difference due to rounding.

¹¹ The 135 contracts consist of the 96 contracts awarded in FY 2015 and the 39 contracts that had estimated completion dates in FY 2014 or FY 2015. See Appendix A for an explanation of how we identified these contracts.


¹² FAR Part 10, "Market Research," 10.001, "Policy."

For example, for contract FA8213-15-C-0046, valued at \$226,778, the AFLCMC contracting officer identified two potential sources through market research. Neither source was a small business for the North American Industry Classification System code¹³ on the contract. The FAR requires a contracting officer to set aside any acquisition over \$150,000 for small business participation when there is reasonable expectation that offers will be obtained from at least two responsible small businesses.¹⁴ Therefore, the contracting officer did not set the contract aside for small businesses.

In another example, for contract FA8204-15-C-0009, valued at \$2.9 million, the AFNWC contracting officer conducted market research by posting a request for information on FedBizOpps to determine whether any small businesses were capable of performing the work. No small businesses responded to the request for information. Therefore, the contracting officer did not set the contract aside for small businesses.

AFLCMC and AFNWC Properly Advertised the Solicitations for Potential Contracts

AFLCMC and AFNWC contracting officials properly advertised the solicitations for all 14 competed contracts on FedBizOpps as full and open without restrictions or restricted to qualified sources.¹⁵ The FAR generally requires contracting officers to transmit a notice to FedBizOpps for potential contracts.¹⁶ For example, AFLCMC contracting officials competed a requirement to manufacture and test flares under contract FA8213-15-C-0007. After determining that the contract could not be a small business set-aside based on market research, contracting officials advertised the requirement on FedBizOpps for 33 days. Two contractors submitted proposals in response to the solicitation—neither were small businesses. In another example, AFNWC contracting officials competed a requirement for a network analyzer under contract FA8204-15-C-0008 on FedBizOpps for 37 days. Three contractors responded to the solicitation—only one of the contractors was a small business.



AFLCMC and AFNWC contracting officials properly advertised the solicitations for all 14 competed contracts.

¹³ A contractor is considered a small business for a contract if the contractor does not exceed the size standard for the contract's North American Industry Classification System code. The size standards are expressed in millions of dollars or number of employees and define how large a business can be and still qualify as a small business for Federal Government programs.

¹⁴ FAR Part 19, Small Business Programs," Subpart 19.5, "Set-Asides for Small Businesses," 19.502, "Total Small Business Set-Asides."

¹⁵ A qualified source is a contractor whose product has been examined and tested and who has satisfied all applicable qualification requirements for that product.

¹⁶ FAR Part 5, "Publicizing Contract Actions," 5.101, "Methods of disseminating information."

AFLCMC and AFNWC Properly Justified Sole-Source Contracts

AFLCMC and AFNWC contracting officials awarded 16 contracts, valued at \$12.0 million, as sole-source contracts to other than small businesses after determining that only one responsible source could meet the agency's requirements. Therefore, the contracts could not be awarded to small businesses. AFLCMC awarded 14 contracts, and AFNWC awarded the other 2 contracts. The FAR permits sole-source contracting when only one responsible source exists and no other supplies or services will satisfy agency requirements.¹⁷ In addition, the FAR permits contracting officers to solicit from one source if the contracting officer determines that only one source is reasonably available for contracts not exceeding the simplified acquisition threshold of \$150,000.¹⁸ For example:

- **Contract FA8213-15-C-0063.** The AFLCMC contracting officer prepared a sole-source justification that stated that the contractor was the only responsible source because the contractor owned the data rights for the product. In addition, the sole-source justification stated that the award to any other source would result in substantial duplication of cost to the Government that was not expected to be recovered through competition and unacceptable delays in fulfilling the Air Force's requirement.
- **Contract FA8232-15-C-0019.** The AFLCMC contracting officer prepared a sole-source justification that stated that the contractor was the original developer and manufacturer of the system being used on the F-16 aircraft.
- **Contract FA8204-15-M-0002.** The AFNWC contracting officer prepared a sole source acquisition request that stated that the contractor was the only responsible source capable of satisfying the Government's requirements for the intercontinental ballistic missile test equipment.

¹⁷ FAR Part 6, "Competition Requirements," Subpart 6.3, "Other Than Full and Open Competition," 6.302, "Circumstances Permitting Other Than Full and Open Competition," 6.302-1, "Only One Responsible Source and No Other Supplies or Services Will Satisfy Agency Requirements."

¹⁸ FAR Part 13, "Simplified Acquisition Procedures," Subpart 13.1, "Procedures," 13.106-1, "Soliciting Competition."

AFLCMC and AFNWC Generally Coded Contractor Business Size in the FPDS-NG Properly

AFLCMC and AFNWC contracting officials properly coded the business size in the FPDS-NG for 132 contracts, valued at \$2.53 billion, of 135 contracts, valued at \$2.54 billion. Specifically, the 132 contracts were properly coded as being awarded to “other than small business.” The FAR requires the contracting officer to ensure that the data entered into the FPDS-NG is accurate.¹⁹ We notified AFLCMC and AFNWC contracting officials about the three coding errors, and they made corrections to the FPDS-NG. For example, AFLCMC contracting officials improperly coded contract FA8213-15-C-0016 as being awarded to “other than small business.” That contract should have been coded as being awarded to a small business.

¹⁹ FAR Part 4, “Administrative Matters,” Subpart 4.6, “Contract Reporting,” 4.604, “Responsibilities.”

Finding B

AFLCMC and AFNWC Did Not Consistently Ensure Subcontracting Opportunities Were Provided for Small Businesses

AFLCMC and AFNWC contracting officials ensured that prime contractors provided small businesses with adequate subcontracting opportunities for 13 contracts, valued at \$325.3 million, of 20 contracts, valued at \$350.2 million, with estimated completion dates in FY 2014 or FY 2015. However, AFLCMC contracting officials did not ensure prime contractors provided small businesses with adequate subcontracting opportunities for the other seven contracts, valued at \$24.9 million. Specifically, AFLCMC contracting officials did not:

- monitor prime contractors' compliance with individual subcontracting plans for four contracts, valued at \$10.9 million; and
- determine why prime contractors with individual subcontracting plans did not meet their small business subcontracting goals for three contracts, valued at \$14.0 million.

AFLCMC contracting officials stated that administering subcontracting plans was not a high priority. In addition, AFLCMC contracting management did not provide training to contracting officers on requirements for administering subcontracting plans or adequate guidance or training for completing the "Subcontract Plan" field in the FPDS-NG. Completing the "Subcontract Plan" field properly enables the contracting officer to monitor compliance with small business subcontracting plans when a plan is required.

As a result, small businesses may have been denied subcontracting opportunities that prime contractors²⁰ were required to make a good-faith effort to provide. In addition, AFLCMC contracting officials did not determine whether prime contractors made a good-faith effort to comply with negotiated subcontracting goals and whether up to \$2.8 million in potential liquidated damages should be assessed. We notified AFLCMC contracting officials during the audit about the contracts with potential liquidated damages. AFLCMC contracting officials determined that prime contractors made a good-faith effort to comply with negotiated subcontracting goals and therefore, no liquidated damages are due.

²⁰ According to FAR 19.702(b)(1), small businesses are not required to provide small business subcontracting plans. Therefore, we reviewed only prime contractors that were other than small businesses.

AFLCMC and AFNWC Complied With Requirements for Subcontracting Plans for 13 Contracts With Estimated Completion Dates in FY 2014 and FY 2015

AFLCMC and AFNWC contracting officials ensured that prime contractors provided small businesses with adequate subcontracting opportunities for 13 contracts, valued at \$325.3 million, of 20 contracts, valued at \$350.2 million, with estimated completion dates in FY 2014 and FY 2015.

AFLCMC and AFNWC contracting officials ensured that prime contractors provided small businesses with adequate subcontracting opportunities for 13 contracts, valued at \$325.3 million.

- AFLCMC and AFNWC contracting officials verified that prime contractors met their small business subcontracting goals for four contracts, valued at \$65.0 million, with individual subcontracting plans.²¹
- AFLCMC contracting officials awarded five contracts, valued at \$238.8 million, with approved comprehensive subcontracting plans.²²
- AFLCMC and AFNWC contracting officials awarded four contracts, valued at \$21.5 million, that did not require subcontracting plans.²³

Prime Contractors Met Subcontracting Goals for Four Contracts

AFLCMC and AFNWC contracting officials verified that contractors met their small business subcontracting goals in their individual subcontracting plans for four contracts, valued at \$65.0 million. For example, AFNWC contracting officials awarded contract FA8204-12-C-0003, valued at \$36.2 million, on June 28, 2012. The contract had an individual subcontracting plan that stated that the contractor intended to subcontract \$3.7 million (23.71 percent of total planned subcontracting dollars of \$15.4 million) to small businesses. The contractor later revised the plan to state that the contractor intended to subcontract \$5.4 million to small businesses (24.3 percent of total planned subcontracting dollars of \$22.4 million).

According to the final individual subcontracting report (ISR) for this contract, the contractor awarded \$6.5 million to small businesses, 27.7 percent of total subcontracting dollars awarded. Therefore, the contractor exceeded both its dollar amount and percentage goals for the contract.

²¹ AFLCMC contracting officials awarded two contracts, and AFNWC contracting officials awarded two contracts.

²² A comprehensive subcontracting plan is an annual fiscal year plan that applies to all DoD contracts in effect during that period. Comprehensive plans are administered by the Defense Contract Management Agency and require the contractor to submit summary subcontracting reports semiannually.

²³ AFLCMC contracting officials awarded two contracts, and AFNWC contracting officials awarded two contracts.

Five Contracts Had Approved Comprehensive Subcontracting Plans

AFLCMC contracting officials awarded five contracts, valued at \$238.8 million, with comprehensive subcontracting plans approved and administered by the Defense Contract Management Agency. Contracting officials miscoded the FPDS-NG for three of these contracts, valued at \$41.7 million, to indicate a plan was not required. However, unlike individual subcontracting plans, subcontracting reports for comprehensive plans cover all of the contractor's DoD contracts for the fiscal year, and the contractor can submit reports in the Electronic Subcontracting Reporting System (eSRS)²⁴ even if FPDS-NG is miscoded. Therefore, the coding errors for these three contracts did not affect the contractor's ability to submit subcontracting reports.

Four Contracts Did Not Require a Subcontracting Plan

AFLCMC and AFNWC contracting officials awarded four contracts, valued at \$21.5 million,²⁵ that did not require subcontracting plans because there were no subcontracting possibilities or the work was performed outside of the United States.

- AFLCMC contracting officials awarded contract FA8213-14-C-0016, valued at \$3.2 million, and contract FA8213-12-C-0070, valued at \$3.0 million, for rocket motors manufactured in the United Kingdom.
- AFNWC contracting officials awarded contract FA8204-10-C-0004, valued at \$2.4 million, for system support. Contracting officials prepared a memorandum stating that no subcontracting possibilities existed because the contractor used its own employees to provide the system support.
- AFNWC contracting officials awarded contract FA8204-13-C-0019, valued at \$13.0 million, for maintenance and repair of guided missiles. Contracting officials prepared a memorandum stating that no subcontracting possibilities existed due to the highly specialized nature of the work.

²⁴ A Government-wide, web-based system for small business subcontracting program reporting.

²⁵ Difference due to rounding.

AFLCMC Did Not Ensure Prime Contractors Provided Small Businesses With Adequate Subcontracting Opportunities for Seven Contracts With Estimated Completion Dates in FY 2014 and FY 2015

AFLCMC contracting officials did not ensure that prime contractors provided small businesses with adequate subcontracting opportunities for 7 contracts, valued at \$24.9 million, of 20 contracts, valued at \$350.2 million, with estimated completion dates in FY 2014 or FY 2015. Specifically, AFLCMC contracting officials did not:

- monitor prime contractors' compliance with individual subcontracting plans for four contracts, valued at \$10.9 million, and
- determine why prime contractors with individual subcontracting plans did not meet their small business subcontracting goals for three contracts, valued at \$14.0 million.

Compliance With Small Business Subcontracting Goals Not Monitored for Four Contracts With Individual Subcontracting Plans

AFLCMC contracting officials did not monitor prime contractors' compliance with individual subcontracting plans for four contracts, valued at \$10.9 million. The FAR states that the contracting officer who approved the subcontracting plan is responsible for acknowledging or rejecting ISRs in eSRS.²⁶ In addition, the FAR states that contractors that do not make a good-faith effort to meet their subcontracting goals may be liable for liquidated damages.²⁷ The contract "Subcontract Plan" field in FPDS-NG must state that a plan is required in order for a contractor to submit ISRs to eSRS. However, the AFLCMC contracting officials miscoded the FPDS-NG for three contracts, valued at \$9.7 million. An AFLCMC contracting official stated that he was unaware that the miscoding prevented the contractors from submitting ISRs to eSRS for contracting officer review.

- AFLCMC contracting officials awarded contract FA8213-13-C-0057, valued at \$4.9 million. The individual subcontracting plan stated that the contractor intended to subcontract \$1.1 million to small businesses (28.6 percent of total planned subcontracting dollars of \$3.8 million).
- AFLCMC contracting officials awarded contract FA8213-14-C-0004, valued at \$894,150. The individual subcontracting plan stated that the contractor intended to subcontract \$161,863 to small businesses (85 percent of total planned subcontracting dollars of \$190,427).

²⁶ FAR Part 19, "Small Business Programs," Subpart 19.7, "The Small Business Subcontracting Program," 19.705, "Responsibilities of the Contracting Officer Under the Subcontracting Assistance Program," 19.705-6, "Postaward Responsibilities of the Contracting Officer."

²⁷ FAR 19.705-7 "Liquidated Damages."

- AFLCMC contracting officials awarded contract FA8213-14-C-0013, valued at \$3.9 million. The individual subcontracting plan stated that the contractor intended to subcontract \$1.3 million to small businesses (90 percent of total planned subcontracting dollars of \$1.4 million).

The fourth contract (FA8213-13-C-0062), valued at \$1.2 million, had two pending ISRs in eSRS for 10 months. We contacted the DoD Office of Small Business Programs to find out why the ISRs were pending. The Associate Director explained that eSRS routed the ISRs to the Defense Contract Management Agency after the AFLCMC contracting officer issued an administrative modification to the contract. Therefore, the contracting officer could not have seen the ISRs and was not notified that the ISRs had been submitted to eSRS. The contractor's individual subcontracting plan stated that the contractor intended to subcontract \$490,140 (99.3 percent of total planned subcontracting dollars of \$493,411) to small businesses. The final ISR indicated that the contractor subcontracted \$513,596 (95.7 percent of total subcontracting dollars awarded). As a result of this audit, the contracting officer accepted the two pending ISRs and determined that the contractor made a good-faith effort to meet its small business subcontracting goals. The contracting officer based his determination on the contractor's explanation that there was an increase in subcontracts to a large business because of unanticipated end unit testing, and the percentages and dollars actually awarded to small businesses.

Prime Contractors Were Not Held Accountable for Not Meeting Subcontracting Goals for Three Contracts

AFLCMC officials did not determine why prime contractors with individual subcontracting plans did not meet their small business subcontracting goals for three contracts, valued at \$14.0 million.

- **Contract FA8213-12-C-0034.** Contract FA8213-12-C-0034, valued at \$9.4 million, had an individual subcontracting plan that stated the contractor intended to subcontract \$2.2 million (85 percent of total planned subcontracting dollars) to small businesses. The plan was later revised to a small business subcontracting goal of \$2.6 million, 81.8 percent of total planned subcontracting dollars. Based on the ISR, the contractor did not meet the revised small business subcontracting goal. The contractor subcontracted \$2.4 million to small businesses, 75.2 percent of total subcontracting dollars awarded.

- **Contract FA8213-12-C-0072.** Contract FA8213-12-C-0072, valued at \$1.7 million, had an individual subcontracting plan that stated the contractor intended to subcontract \$41,678 (88 percent of total planned subcontracting dollars) to small businesses. Based on the ISR, the contractor did not meet the small business subcontracting goal. The contractor subcontracted \$21,174 to small businesses, 15.3 percent of total subcontracting dollars awarded.
- **Contract FA8232-13-C-0018.** Contract FA8232-13-C-0018, valued at \$2.9 million, had an individual subcontracting plan that stated the contractor intended to subcontract \$408,994 (40 percent of total planned subcontracting dollars) to small businesses. Based on the ISR, the contractor did not meet its small business subcontracting goal. The contractor subcontracted only \$253,992 to small businesses, 38.3 percent of total subcontracting dollars awarded.

Administering Subcontracting Plans Was Not a High Priority

AFLCMC contracting officials stated that administering subcontracting plans was not a high priority. One AFLCMC contracting officer said that he did not monitor a subcontracting plan and that he did not have a good reason for not monitoring the plan other than that it was not a high priority. Another AFLCMC contracting officer stated that the contracting staff was not “follow-up oriented” for the administration of subcontracting plans.

Contracting Management Did Not Provide Training on Requirements for Subcontracting Plans

AFLCMC contracting management did not train contracting officers on their responsibilities for administering subcontracting plans. Specifically, AFLCMC management stated that contracting officers had not received training on approving and administering subcontracting plans, but training was being developed. The FAR states that contracting officers’ responsibilities include determining whether the contract requires a subcontracting plan, reviewing the subcontracting plan for adequacy, acknowledging receipt of subcontracting reports in eSRS, and determining whether the contractor made a good-faith effort to meet its subcontracting goals.²⁸

²⁸ FAR Subpart 19.7, “The Small Business Subcontracting Programs.”

AFLCMC Guidance and Training for Completing the Subcontract Plan Field in the FPDS-NG Was Inadequate

AFLCMC contracting management did not provide adequate guidance or training for completing the Subcontract Plan field in FPDS-NG. AFLCMC and AFNWC contracting management provided training on preparing FPDS-NG contract action reports,²⁹ but the training did not include how to complete the Subcontract Plan field, even though the training included a large section on common errors. AFLCMC and AFNWC contracting officials used a locally produced “CAR [Contract Action Report] Cheat Sheet,” which included guidance for completing key fields in the FPDS-NG; however, it did not include any guidance on how to complete the Subcontract Plan field. In addition, the training did not inform contracting officials that miscoding the Subcontract Plan field prevents the contractor from submitting ISRs to eSRS.

Opportunities to Recoup Liquidated Damages May Have Been Missed

Small businesses may not have received subcontract work that prime contractors were required to make a good-faith effort to provide. In addition, when AFLCMC contracting officials did not obtain ISRs or did not follow up on ISRs that show the contractor was not meeting its small business goals, contracting officials did not determine whether the prime contractors made a good-faith effort to comply with negotiated subcontracting goals. Therefore, AFLCMC may have missed the opportunity to recoup potential liquidated damages of up to \$2.8 million for six contracts. FAR subpart 19.7 discusses the importance of complying with subcontracting plans, and provides the statutory basis for obtaining liquidated damages, stating:

Maximum practicable utilization of small business, veteran-owned small business, service-disabled veteran-owned small business, HUBZone [Historically Underutilized Business Zone] small business, small disadvantaged business, and women-owned small business concerns as subcontractors in Government contracts is a matter of national interest with both social and economic benefits. When a contractor fails to make a good faith effort to comply with a subcontracting plan, these objectives are not achieved, and 15 U.S.C. 637(d)(4)(F) directs that liquidated damages shall be paid by the contractor.³⁰

²⁹ A contract action report contains data that is required to be reported in FPDS-NG.

³⁰ FAR Part 19, “Small Business Programs,” Subpart 19.7, “The Small Business Subcontracting Programs,” 19.705-7, “Liquidated Damages.”

FAR subpart 19.7 further states, “The amount of damages attributable to the contractor’s failure to comply shall be an amount equal to the actual dollar amount by which the contractor failed to achieve each subcontracting goal.” The following table shows that the contractors may owe as much as \$2.8 million in liquidated damages to AFLCMC.

Table. Potential Liquidated Damages

Contract Number	Total Value	Small Business Subcontracting Goal	Actual Subcontracting Dollars	Potential Liquidated Damages
FA8213-13-C-0057	\$4,922,501	\$1,101,775	Unknown	\$1,101,775
FA8213-14-C-0004	894,150	161,863	Unknown	161,863
FA8213-14-C-0013	3,866,570	1,260,220	Unknown	1,260,220
FA8213-12-C-0034	9,350,785	2,558,079	2,428,741	129,338
FA8213-12-C-0072	1,676,168	41,670	21,174	20,496
FA8232-13-C-0018	2,944,230	408,994	253,992	155,002
Total	\$23,654,404	\$5,532,601	\$2,703,907	\$2,828,694

Source: DoD OIG.

During the audit, we notified AFLCMC contracting officials about the contracts with potential liquidated damages. AFLCMC contracting officials determined that the prime contractors made a good-faith effort to comply with negotiated subcontracting goals and, therefore, no liquidated damages are due.

Other Matters of Interest on Subcontracting With Small Businesses for Contracts Awarded in FY 2015

AFLCMC and AFNWC contracting officials ensured that 11 of 12 contracts, valued at \$1.5 billion, had an approved subcontracting plan. AFLCMC awarded 10 contracts, and AFNWC awarded the other 2 contracts.

However, AFNWC contracting officials did not prepare a memorandum stating that no subcontracting possibilities existed for contract FA8204-15-C-0009, valued at \$2.9 million, even though the contracting officer stated that the contract did not include a subcontracting plan because the prime contractor was performing all of the work. The AFNWC contracting officer prepared a memorandum in coordination with the small business specialist as a result of our audit. We found no indications that this was a systemic problem; therefore, we are not making a recommendation.

In addition, AFLCMC contracting officials miscoded the FPDS-NG for one contract, valued at \$1.7 million, that indicated that an individual subcontracting plan was

not required. We notified AFLCMC contracting officials about the coding error, and they made the correction. Correcting the error will allow the contractor to upload ISRs to eSRS and contracting officials to monitor compliance with the subcontracting plan.

Recommendations

Recommendation B.1

We recommend that the Chief, Product Support Contracting Division, Air Force Life Cycle Management Center:

- a. Correct the Federal Procurement Data System–Next Generation for contracts FA8213-13-C-0057, FA8213-14-C-0004, and FA8213-14-C-0013, and require the contractors to submit individual subcontracting reports in the Electronic Subcontracting Reporting System for contracts. If the individual subcontracting reports show the contractors did not meet the contract’s subcontracting goals, determine whether the contractor made a good-faith effort to meet its subcontracting goals, and if not, assess liquidated damages against the contractor.**

Management Actions Taken for Recommendation B.1.a

We verified that AFLCMC contracting officials corrected the FPDS-NG for the three contracts to indicate that an individual subcontracting plan was required. The contracting officials also required contractors to submit individual subcontracting reports to eSRS.

- For contract FA8213-13-C-0057, contracting officials determined that the contractor made a good-faith effort to meet the planned small business subcontracting goals. The contracting officer provided a memorandum explaining how he determined that the contractor made a good faith effort to meet the planned small business subcontracting goals. Specifically, the small business subcontracting goal of \$1.1 million was based on an anticipated buy of 153 cases. However, AFLCMC only purchased 43 cases and the contractor did not recalculate its small business subcontracting goals in its subcontracting plan.
- For contract FA8213-14-C-0004, contracting officials provided us with the final ISR, which showed that the contractor subcontracted a total of \$171,218 (99.7 percent of total subcontracting dollars awarded) to small

businesses, which exceeded the small business subcontracting goal of \$161,863 (85 percent of total planned subcontracting dollars).

- For contract FA8213-14-C-0013, contracting officials provided us with the most recent ISR, which showed that the contractor subcontracted a total of \$1,161,252 (99.6 percent of total subcontracting dollars awarded of \$1,165,531) to small businesses, exceeding the small business subcontracting goal of 90 percent of total subcontracting dollars planned to be awarded to small businesses.
- b. Determine whether the contractors for contracts FA8232-13-C-0018, FA8213-12-C-0034, and FA8213-12-C-0072 made a good-faith effort to meet the small business subcontracting goals in their subcontracting plans and, if not, assess liquidated damages against the contractor.**

Management Actions Taken for Recommendation B.1.b

We verified that AFLCMC contracting officials determined that the contractors for the three contracts made a good-faith effort to meet the small business subcontracting goals in their subcontracting plans and, therefore, did not assess liquidated damages against the contractors.

- For contract FA8232-13-C-0018, contracting officials provided us with a memorandum summarizing how they determined that the contractor made a good-faith effort to meet the small business subcontracting goals. That memorandum included a summary of their conversation with the contractor. The contractor explained that the subcontracting goals were based on historical averages. The contractor explained that, for fixed-price contracts, the contractor procures materials through a manufacturing production pool rather than buying specific material for individual contracts. At the time contract FA8232-13-C-0018 was awarded, it was unknown which pools would meet contractual requirement dates; therefore, specific supplier information was unknown at that time. In addition to contacting the contractor, contracting officials also reviewed the Small Business Subcontracting Program Audit letter showing that the Defense Contract Management Agency: Small Business Center-West Division rated this division of the contractor's Small Business Program (subcontracting) as "Outstanding."
- For contract FA8213-12-C-0034, contracting officials provided us with a memorandum summarizing how they determined that the contractor made a good-faith effort to meet its small business subcontracting goals. Contracting officials stated that, although the contractor did not meet its revised subcontracting goal, the contractor exceeded the original subcontracting goal by over \$218,000. In the memorandum, the

contracting officials stated that they did not know why the small business subcontracting goal was revised.

- For contract FA8213-12-C-0072, contracting officials provided us with a memorandum summarizing how they determined that the contractor made a good-faith effort to meet its small business subcontracting goals. That memorandum included a summary of their conversation with the contractor. Specifically, the contractor stated that, during the performance of the contract, one of the contractor's small business subcontractors lost its small businesses status, which prevented the contractor from meeting its small business subcontracting goals.

Recommendation B.2

We recommend that the Director, Contracting Directorate, Air Force Sustainment Center, Hill Operating Location, direct his staff to:

- Train contracting officials on their Federal Acquisition Regulation subpart 19.7 responsibilities for administering subcontracting plans.**
- Update their Federal Procurement Data System–Next Generation training to include how to complete the “subcontract plan” field.**

Management Actions Taken for Recommendations B.2.a and B.2.b

Contracting Directorate, Air Force Sustainment Center, Hill Operating Location personnel modified a training presentation and provided the training to both AFLCMC and AFNWC contracting officials in November 2016. The training included:

- guidance on contracting officials' FAR subpart 19.7 responsibilities for administering subcontracting plans;
- reminders that contracting officers are required by the FAR to acknowledge receipt of, or reject, subcontracting reports in eSRS;
- reminders that contracting officers must determine whether the contractor made a good-faith effort to meet its subcontracting goals if the goal was not met; and
- guidance for how to complete the “Subcontract Plan” field in the FPDS-NG. The training informed the contracting officers that contract action reports

must be coded to state that the contract has a subcontracting plan in order for contractors to submit subcontracting reports to eSRS.

- c. **Update their Federal Procurement Data System–Next Generation guidance to include how to complete the “Subcontract Plan” field.**

Management Actions Taken for Recommendation B.2.c

Contracting Directorate, Air Force Sustainment Center, Hill Operating Location personnel updated their FPDS-NG guidance to include how to complete the “Subcontract Plan” field. Specifically, we verified that they updated the “Buyer’s Resource Tool” to explain that a contract must be coded in the FPDS-NG as having a subcontracting plan or the contract information will not transfer to eSRS, and the contractor will not be able to upload subcontracting reports to eSRS.

Our Response

The management actions taken adequately addressed our observations; therefore, all recommendations are closed.

Appendix A

Scope and Methodology

We conducted this performance audit from July 2016 through March 2017 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives. This audit is part of a series of audits on DoD small business contracting.

We determined whether AFLCMC and AFNWC contracting officials provided small businesses adequate opportunity to be awarded prime contracts and whether they were holding prime contractors accountable for meeting small business subcontracting goals. In total, we reviewed 53 contracts, valued at \$1.8 billion.

Prime Contracting Universe and Sample

We used the FPDS-NG to identify the universe of Air Force contracts. According to the FPDS-NG, the Air Force awarded 5,778 contracts,³¹ valued at \$681.1 billion, to other than small businesses during FY 2015. We nonstatistically selected Hill Air Force Base based on the number of contracts awarded and the dollar value of contracts awarded—341 contracts, valued at \$5.3 billion. We selected three contracting offices at Hill Air Force Base to audit—two AFLCMC contracting offices and one AFNWC contracting office. Those offices awarded a total of 96 contracts, valued at \$2.1 billion. To refine our universe, we reviewed all 96 contracts to determine whether the contractor’s business size selection in the FPDS-NG was accurately coded as “other than small business.” We determined that 2 of the 96 contracts were miscoded as being awarded to “other than small businesses.” We eliminated those contracts from our universe. In addition, we eliminated three high-dollar value contracts, valued at \$2.1 billion,³² because it was unlikely that the contracts could have been awarded to a small business.

We nonstatistically selected 30 contracts, valued at \$26.9 million, from the 91 contracts awarded by AFLCMC and AFNWC during FY 2015. We selected the 30 contracts to get a mix of definitive contracts, purchase orders, indefinite-delivery, indefinite-quantity contracts, and competitive versus sole-source contracts. We reviewed the 30 contracts to determine whether AFLCMC and AFNWC contracting officials provided small businesses an adequate opportunity to be awarded prime contracts.

³¹ For this audit, we limited our universe to definitive contracts, indefinite-delivery indefinite-quantity contracts, and purchase orders because the small business competition requirements in FAR part 19 apply to these types of contracts.

³² Base and all options value according to the FPDS-NG.

Subcontracting Universe and Sample

The AFLCMC and AFNWC contracting offices awarded 39 contracts, valued at \$393.1 million, to other than small businesses with estimated completion dates in FY 2014 or FY 2015. To refine our universe, we reviewed all 39 contracts to determine whether the contractor's business size selection in the FPDS-NG was accurately coded as "other than small business." We determined that 1 of the 39 contracts was miscoded as being awarded to "other than small businesses." We eliminated that contract from our universe.

We nonstatistically selected 20 contracts, valued at \$350.2 million, from the 38 contracts to determine whether contracting officials ensured prime contractors provided small businesses with adequate subcontracting opportunities. We selected the 20 contracts to get a mix of contracts that had or did not have subcontracting plans, had or did not have reports in eSRS, and had reports showing the contractor met or did not meet its subcontracting goals. In addition, we reviewed the three high-dollar value contracts, valued at \$1.5 billion,³³ to determine whether those contracts had an approved subcontracting plan or a determination that no subcontracting possibilities existed.

Work Performed

We collected, reviewed, and analyzed documents for the 53 contracts to determine whether AFLCMC and AFNWC contracting officials provided small businesses adequate opportunities to be awarded prime contracts and whether the officials held prime contractors accountable for meeting small business subcontracting goals. We reviewed documentation dated between November 2001 and February 2017.

Review of Opportunities Provided to Small Businesses

To determine whether AFLCMC and AFNWC contracting officials provided small business an adequate opportunity to be awarded prime contract, we reviewed 30 contracts, valued at \$26.9 million. We reviewed documents from those contract files, including:

- solicitations;
- Small Business Coordination Records;
- market research;
- price negotiation memorandums;
- justifications for other than full and open competition; and
- System for Award Management information.

³³ Not-to-exceed value of the contracts. This is different from the dollar value in the FPDS-NG because the dollar value for one contract is incorrect in the FPDS-NG.

Review of Subcontracting Plans for Contracts Estimated to Be Completed in FYs 2014 and 2015

To determine whether AFLCMC and AFNWC contracting officials monitored compliance with small business subcontracting goals, we reviewed 20 prime contracts, valued at \$350.2 million, that exceeded \$650,000. The contracts had estimated completion dates in FYs 2014 and 2015. We reviewed contractor proposals and small business subcontracting plans, small business coordination records, and contract action reports. In addition, we interviewed key AFLCMC and AFNWC contracting officials, and obtained subcontracting reports from eSRS.

Review of Subcontracting Plans for Contracts Awarded in FY 2015

To determine whether contracts awarded in FY 2015 had an approved subcontracting plan or a determination that no subcontracting possibilities existed, we reviewed 12 contracts, valued at \$1.5 billion. We reviewed contractor proposals and small business subcontracting plans, small business coordination records, and contract action reports. In addition, we interviewed key AFLCMC and AFNWC contracting officials.

Criteria

We reviewed the following sections of the FAR relevant to our audit objectives.

- FAR Part 4, “Administrative Matters,” establishes policies and procedures relating to the administrative aspects of contract execution.
- FAR Part 6, “Competition Requirements,” addresses competition requirements and situations.
- FAR Part 8, “Required Sources of Supplies and Services,” addresses prioritizing sources of supplies and services for use by the Government.
- FAR Part 10, “Market Research,” addresses when and how contracting officials should conduct market research.
- FAR Part 19, “Small Business Programs,” establishes requirements for contracting officials to provide prime contracting opportunities and subcontracting opportunities for small businesses.
- FAR Clause 52.219-9, “Small Business Subcontracting Plan,” which requires contractors to upload ISRs to eSRS.

Use of Computer-Processed Data

We relied on the contracting officer's business size selection field in the FPDS-NG to select contracts awarded to other than small businesses. We reviewed documentation from the Electronic Document Access System and the System for Award Management³⁴ to determine whether the contracts were actually awarded to other than small businesses. To assess the accuracy of computer-processed data, we compared the FPDS-NG data to documents in the contract files and to data from the System for Award Management. Of the 135 contracts we reviewed, only 3 contracts were miscoded as being awarded to other than small businesses. We notified AFLCMC and AFNWC contracting officials about the three coding errors, and they made the corrections to the FPDS-NG.

In addition, we used computer-processed data from eSRS to determine whether the contractor uploaded ISRs into the system for the contracts we reviewed. We reviewed the ISRs to identify whether the contractor met its subcontracting goals. We compared the ISRs to the subcontracting plan we obtained from eSRS. We determined that the data obtained from the FPDS-NG and eSRS were sufficiently reliable to accomplish our audit objectives.

Prior Coverage

During the last 5 years, the Department of Defense Office of Inspector General (DoD OIG) and the Air Force Audit Agency issued four reports discussing small business contracting. Unrestricted DoD OIG reports can be accessed at <http://www.dodig.mil/pubs/index.cfm>. Unrestricted Air Force Audit Agency reports can be accessed from <https://www.foia.af.mil/palMain.aspx> by selecting the Freedom of Information Act Reading Room and then selecting audit reports.

DoD OIG

Report No. DODIG-2016-117, "Marine Corps Installations National Capital Region-Regional Contracting Office Generally Implemented Recommendations," July 29, 2016

Marine Corps Installations National Capital Region-Regional Contracting Office (MCINCR-RCO) contracting officials addressed all four recommendations in Report No. DODIG-2015-095 and, therefore, those recommendations will be closed. Specifically, for three recommendations MCINCR-RCO contracting officials:

³⁴ The System for Award Management is a Federal Government-owned and operated website where a contractor makes several self-certifications, including self-certification of its small business status. The system transmits contractor data to the FPDS-NG, but contracting personnel must manually input the contractor's business size.

- established policy requiring contracting officials to obtain adequate subcontracting plans from contractors when the FAR requires subcontracting plans (Recommendation 1);
- established policy requiring contracting officials to verify that contractors submit the required subcontracting reports to eSRS (Recommendation 2);
- provided training to ensure that contracting officials understand their FAR subpart 19.7 responsibilities for evaluating and administering subcontracting plans (Recommendation 3).

For Recommendation 4, MCINCR-RCO contracting officials determined that the contractors for contracts M00264-08-D-0001 and M00264-13-C-0019 made good-faith efforts to meet the small business subcontracting goals in their subcontracting plans; however, they did not support their good-faith effort determination.

MCINCR-RCO contracting officials addressed all four recommendations in Report No. DODIG-2015-095 and, therefore, those recommendations were closed.

Report No. DODIG-2016-019, “Small Business Contracting at Marine Corps Systems Command Needs Improvement, November 10, 2015

Marine Corps Systems Command (MCSC) contracting officials generally provided small businesses an adequate opportunity compete for prime contracts, but did not ensure prime contractors provided small businesses with adequate opportunities for prime contracts. Specifically, MCSC contracting officials:

- did not track compliance with small business subcontracting goals for four contracts with individual subcontracting plans;
- did not determine why large businesses were not meeting their small business subcontracting goals on two ongoing contracts with individual subcontracting plans; and
- awarded six contracts without subcontracting plans or the required determination and approval.

The report recommended that MCSC officials determine whether the contractors for the six specified contracts made a good-faith effort to meet their subcontracting goals, and if not, whether liquidated damages may be imposed against the contractor. The report also recommended that MCSC officials establish guidance for contracting officers for reviewing, approving, and administering subcontracting plans; and train contracting officials on their responsibilities for evaluating and administering subcontracting plans.

Report No. DODIG-2015-095, "Small Business Contracting at Regional Contracting Office–National Capital Region Needs Improvement," March 20, 2015

Regional Contracting Office–National Capital Region (RCO-NCR) contracting officials generally provided small businesses an adequate opportunity to compete for prime contracts, but did not ensure prime contractors provided small businesses with adequate opportunities for prime contracts. Specifically, RCO-NCR contracting officials awarded:

- four contracts either without requiring a subcontracting plan or with a subcontracting plan that did not include small business subcontracting goals; and
- two contracts that had subcontracting plans with small business subcontracting goals, but contracting officials did not monitor whether the contractor met the goals.

The report recommended that RCO-NCR officials establish policy requiring contracting officials to obtain adequate subcontracting plans from contractors when the FAR requires subcontracting plans, verify that contractors submit the required subcontracting reports to eSRS, and implement training to ensure that contracting officials understand their responsibilities. The report also recommended that RCO-NCR officials determine whether the contractors for the two specified contracts made a good-faith effort to meet the small business subcontracting goals in their subcontracting plans and, if not, determine whether liquidated damages may be imposed against the contractor.

Air Force

Report No. F2011-0003-FC1000, "Air Force Small Business Program Execution at Installations," March 8, 2011

Air Force acquisition teams did not adequately consider small business in installation acquisitions, contracting personnel did not effectively administer FAR small business provisions, and Air Force personnel did not accurately report small business program data in the FPDS-NG.

Appendix B

Summary of Contracts Reviewed

	Contract	Base & Options Value	Prime Contracting Opportunities for Contracts Awarded in FY 2015	Approved Subcontracting Plans for Contracts Awarded in FY 2015	Subcontract Monitoring for Contracts Estimated to be Complete in FYs 2014 or 2015
1	FA8213-15-M-0004	\$26,917	X		
2	FA8213-15-M-0009	69,000	X		
3	FA8213-15-M-0016	104,994	X		
4	FA8213-15-M-0021	108,291	X		
5	FA8213-15-M-0019	121,314	X		
6	FA8213-15-M-0026	131,846	X		
7	FA8213-15-C-0056	170,005	X		
8	FA8213-15-C-0046	226,778	X		
9	FA8213-15-C-0019	309,213	X		
10	FA8213-15-C-0003	376,455	X		
11	FA8213-15-C-0063	432,103	X		
12	FA8213-15-C-0029	509,609	X		
13	FA8213-15-C-0043	575,903	X		
14	FA8213-15-C-0061	639,155	X		
15	FA8213-15-C-0042	834,179	X		X
16	FA8213-15-C-0071	977,035	X		X
17	FA8213-15-C-0008	1,440,083	X		X
18	FA8213-15-C-0020	1,454,332	X		X
19	FA8213-15-D-0004	1,650,000	X		X
20	FA8213-15-C-0007	6,971,844	X		X

Source: DoD OIG.

	Contract	Base & Options Value	Prime Contracting Opportunities for Contracts Awarded in FY 2015	Approved Subcontracting Plans for Contracts Awarded in FY 2015	Subcontract Monitoring for Contracts Estimated to be Complete in FYs 2014 or 2015
21	FA8204-15-M-0020	28,369	X		
22	FA8204-15-M-0007	84,100	X		
23	FA8204-15-M-0002	108,919	X		
24	FA8204-15-C-0008	207,509	X		
25	FA8204-15-C-0009	2,932,760	X	X	
26	FA8232-15-M-0006	35,127	X		
27	FA8232-15-M-0008	92,740	X		
28	FA8232-15-C-0014	470,523	X		
29	FA8232-15-C-0019	899,950	X	X	
30	FA8232-15-D-0005	4,900,000	X	X	
31	FA8213-14-C-0004	894,150			X
32	FA8213-13-C-0005	1,029,543			X
33	FA8213-13-C-0062	1,211,550			X
34	FA8213-11-C-0090	1,514,192			X
35	FA8213-12-C-0072	1,676,168			X
36	FA8213-12-C-0070	2,994,388			X
37	FA8213-14-C-0016	3,212,146			X
38	FA8213-14-C-0013	3,866,570			X
39	FA8213-12-C-0034	9,350,785			X
40	FA8213-13-C-0057	4,922,501			X
41	FA8213-13-C-0001	17,872,234			X
42	FA8213-10-C-0022	169,953,336			X

Source: DoD OIG.

	Contract	Base & Options Value	Prime Contracting Opportunities for Contracts Awarded in FY 2015	Approved Subcontracting Plans for Contracts Awarded in FY 2015	Subcontract Monitoring for Contracts Estimated to be Complete in FYs 2014 or 2015
43	FA8204-10-C-0004	2,367,150			X
44	FA8204-13-C-0002	9,900,000			X
45	FA8204-13-C-0019	12,967,963			X
46	FA8294-12-C-0003	36,197,210			X
47	FA8232-13-C-0018	2,944,230			X
48	FA8232-13-C-0017	4,677,438			X
49	FA8232-13-C-0004	27,168,437			X
50	FA8232-13-C-0003	35,463,587			X
51	FA8213-15-D-0002	1,144,000,000		X	
52	FA8204-15-D-0001	99,120,000		X	
53	FA8232-15-D-0001	221,000,000		X	
	Column Total Count	53	30	12	20
	Column Total Value	\$1,841,192,631	\$26,889,054	\$1,486,180,184	\$350,183,577

Source: DoD OIG.

Acronyms and Abbreviations

AFLCMC	Air Force Life Cycle Management Center
AFNWC	Air Force Nuclear Weapons Center
eSRS	Electronic Subcontracting Reporting System
FAR	Federal Acquisition Regulation
FedBizOpps	Federal Business Opportunities
FPDS-NG	Federal Procurement Data System—Next Generation
ISR	Individual Subcontracting Report

Whistleblower Protection

U.S. DEPARTMENT OF DEFENSE

The Whistleblower Protection Ombudsman's role is to educate agency employees about prohibitions on retaliation and employees' rights and remedies available for reprisal. The DoD Hotline Director is the designated ombudsman. For more information, please visit the Whistleblower webpage at www.dodig.mil/programs/whistleblower.

For more information about DoD OIG reports or activities, please contact us:

Congressional Liaison

congressional@dodig.mil; 703.604.8324

Media Contact

public.affairs@dodig.mil; 703.604.8324

For Report Notifications

www.dodig.mil/pubs/email_update.cfm

Twitter

www.twitter.com/DoD_IG

DoD Hotline

www.dodig.mil/hotline



DEPARTMENT OF DEFENSE | INSPECTOR GENERAL

4800 Mark Center Drive
Alexandria, VA 22350-1500
www.dodig.mil
Defense Hotline 1.800.424.9098

