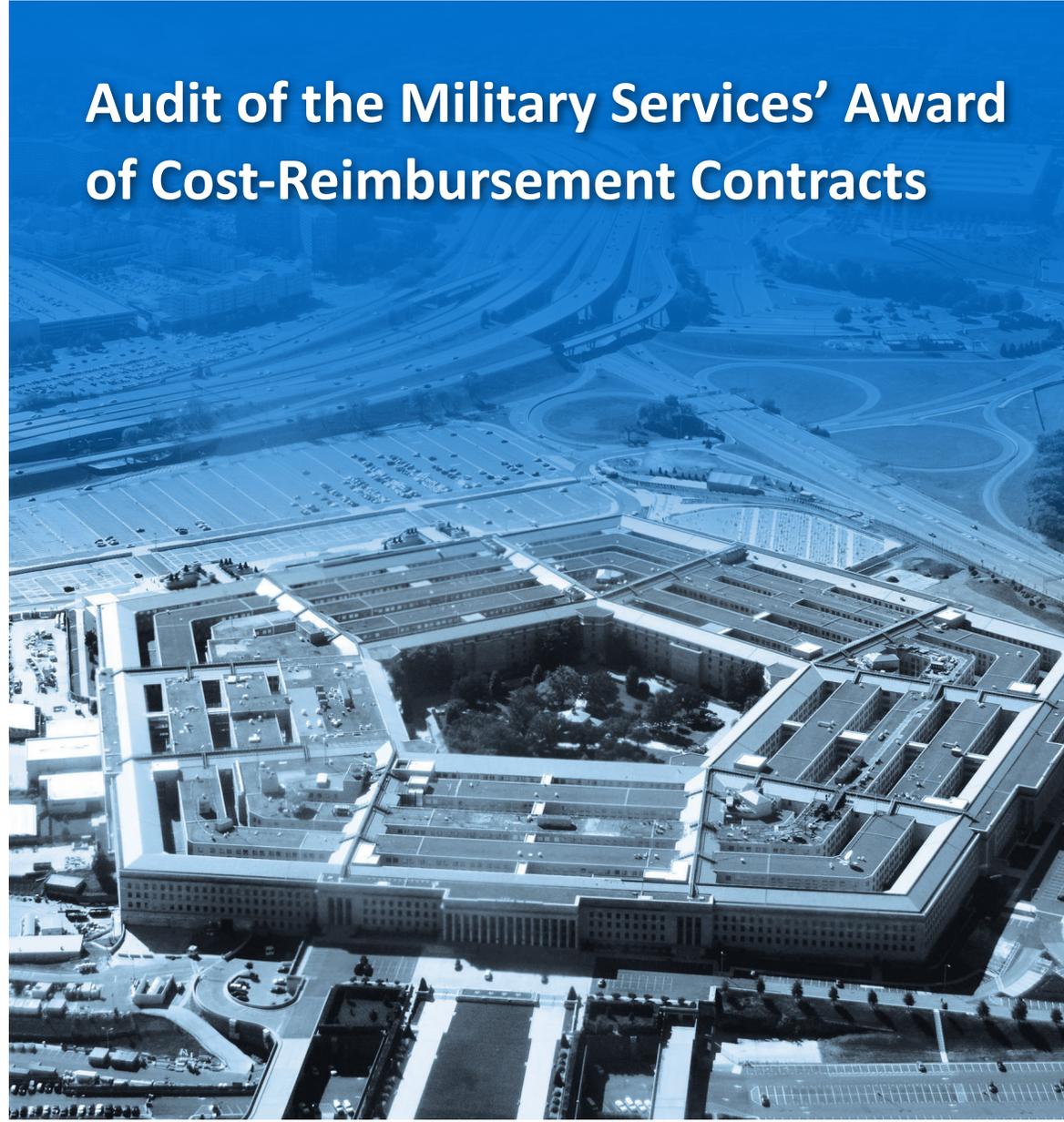


INSPECTOR GENERAL

U.S. Department of Defense

SEPTEMBER 26, 2022



Audit of the Military Services' Award of Cost-Reimbursement Contracts

INTEGRITY ★ INDEPENDENCE ★ EXCELLENCE





Results in Brief

Audit of the Military Services' Award of Cost-Reimbursement Contracts

September 26, 2022

Objective

The objective of this audit was to determine whether Military Service contracting officials awarded cost-reimbursement contracts in accordance with Federal and DoD regulations and guidance.

Background

Contracting officials use cost-reimbursement contracts when contracting officials cannot definitively describe work or estimate its costs with any reasonable degree of certainty. Cost-reimbursement contracts are high risk for the DoD due to the potential for cost escalation and because the Government pays a contractor's costs, up to the amount obligated on the contract, even without a final deliverable. Specifically, cost-reimbursement contracts provide little to no incentive for a contractor to limit costs, unless there is an incentive built into the contracts for that purpose.

The DoD OIG previously conducted a series of audits on cost-reimbursement contract compliance and documenting the decisions and approvals that are required before using cost-reimbursement contracts. The DoD OIG made DoD-wide recommendations to comply with Federal regulations for the award of cost-reimbursement contracts.

Finding

Military Service contracting officials did not consistently award cost-reimbursement contracts in accordance with Federal and DoD regulations and guidance. Specifically,

Finding (cont'd)

contracting officials consistently complied with cost-reimbursement contract requirements, when awarding 38 of 83 cost-reimbursement contracts, valued at \$20.54 billion. However, contracting officials did not consistently award the remaining 45 cost-reimbursement contracts, valued at \$6.94 billion in accordance with Federal and DoD regulations and guidance.¹ Specifically, of the 83 contracts reviewed, contracting officials did not:

- obtain approval for the use of 11 cost-reimbursement contracts valued at \$24 million;
- justify the use of 3 cost-reimbursement contracts valued at \$5.32 million;
- document the possibility of a transition to a firm-fixed-price contract for 42 cost-reimbursement contracts, valued at \$6.55 billion;
- ensure adequate Government resources were available to award and manage 8 cost-reimbursement contracts, valued at \$969.41 million; or
- determine the adequacy of the contractor's accounting system in consultation with auditors or functional specialist for 1 cost-reimbursement contract, valued at \$280,000.

Military Service contracting officials did not consistently award the cost-reimbursement contracts because contracting officials thought Federal and DoD regulations for awarding cost-reimbursements contracts did not apply to research and development contracts, including those awarded under a Broad Agency Announcement. In addition, contracting officials thought the requirement to document the possibility for a cost-reimbursement contract to a firm-fixed price contract did not apply when contracting officials determined no follow-on contracts were needed after awarding the cost-reimbursement

¹ Of the 45 cost-reimbursement contracts identified, contracting officials did not comply with one or more of the following cost-reimbursement contract requirements: approval level, justification, transition strategy, adequate Government resources, and adequate accounting system.



Results in Brief

Audit of the Military Services' Award of Cost-Reimbursement Contracts

Finding (cont'd)

contract. As a result, Military Service contracting officials potentially increased contracting risks when awarding cost-reimbursement contracts without proper approvals, justifications, transition strategies, adequate Government resources, and adequate accounting systems. Specifically, contracting risks may increase for the DoD because of the potential for cost escalation and because the DoD pays a contractor's costs regardless of whether the work is completed.

Recommendations

Among other recommendations, we recommend that the Principal Director of Defense Pricing and Contracting:

- clarify whether any exemptions exist regarding the applicability of current regulations for contracting officials to document in the contract file approval for the use of cost-reimbursement contracts and transition strategies to include the possibility for cost-reimbursement contracts to transition to firm-fixed-price contracts to the maximum extent practicable; and
- issue a memorandum or other guidance to emphasize coordination between contracting officials and the Defense Contract Management Agency, as part of acquisition planning, to ensure adequate Government resources are available to award and manage cost-reimbursement contracts before contract award.

We recommend that the Military Services establish a process to formalize coordination between contracting officials and the Defense Contract Management Agency throughout the contracting process to identify and document in the acquisition plan or contract file that adequate accounting systems are in place and adequate Government resources are available to award and manage cost-reimbursement contracts before contract award.

Management Comments and Our Response

The Principal Director of Defense Pricing and Contracting and the Military Services agreed with all 13 of the recommendations.

The actions planned for seven of the recommendations fully addressed the specifics of the recommendations and we consider those recommendations resolved but open. We will close those seven recommendations once we verify that the agreed-upon actions were completed. In addition, we verified that the Military Services completed action to address the remaining six recommendations; therefore, those recommendations are closed.

Please see the Recommendations Table on the next page for the status of recommendations.

Recommendations Table

Management	Recommendations Unresolved	Recommendations Resolved	Recommendations Closed
Principal Director, Defense Pricing and Contracting	None	1.a, 1.b, and 1.c	None
Assistant Secretary of the Army (Acquisition, Logistics, and Technology)	None	2	None
Assistant Secretary of the Navy (Research, Development, and Acquisition)	None	3	None
Deputy Assistant Secretary for Contracting, Office of the Assistant Secretary of the Air Force (Acquisition, Technology, and Logistics)	None	4	None
Director of Contracting, Fort Huachuca Army Contracting Command, Aberdeen Proving Ground	None	None	5.a, 5.b, and 5.c
Chief of Contracting Operations, Army Contracting Command, Aberdeen Proving Ground	None	None	6.a, 6.b, and 6.c
Assistant Commander of Contracts, Marine Corps System Command	None	7	None

Please provide Management Comments by October 26, 2022.

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** – DoD OIG verified that the agreed upon corrective actions were implemented.





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

September 26, 2022

MEMORANDUM FOR UNDER SECRETARY OF DEFENSE FOR ACQUISITION AND SUSTAINMENT
AUDITOR GENERAL, DEPARTMENT OF THE ARMY
AUDITOR GENERAL, DEPARTMENT OF THE NAVY
AUDITOR GENERAL, DEPARTMENT OF THE AIR FORCE

SUBJECT: Audit of the Military Services' Award of Cost-Reimbursement Contracts
(Report No. DODIG-2022-137)

This final report provides the results of the DoD Office of Inspector General's audit. We previously provided copies of the draft report and requested written comments on the recommendations. We considered management's comments on the draft report when preparing the final report. These comments are included in the report.

This report contains seven recommendations that are considered resolved. Therefore, as discussed in the Recommendations, Management Comments, and Our Response section of this report, the recommendations will remain open until documentation is submitted showing that the agreed-upon actions are complete. Once we verify that the actions are complete, the recommendations will be closed.

This report contains six recommendations that are considered closed as discussed in the Recommendations, Management Comments, and Our Response section of this report. Those recommendations do not require further comments.

For the resolved recommendations, within 90 days please provide us documentation showing that the agreed-upon actions have been completed. Your response should be sent as a PDF file to afunet@dodig.mil. Responses must have the actual signature of the authorizing official for your organization.

We appreciate the cooperation and assistance received during the audit. Please direct any questions to me at [REDACTED]

A handwritten signature in black ink, reading "Carol N. Gorman".

Carol N. Gorman
Assistant Inspector General for Audit
Cyberspace Operations & Acquisition,
Contracting, and Sustainment

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Introduction

Objective

The objective of this audit was to determine whether Military Service contracting officials awarded cost-reimbursement contracts in accordance with Federal and DoD regulations and guidance. See Appendix A for the scope and methodology, and prior coverage related to the objective.

Background

The DoD OIG previously conducted a series of audits on contracting officials' compliance with documenting decisions and approvals that are required before issuing cost-reimbursement contracts.² In addition, the DoD OIG issued a summary report in 2014 that provided recommendations for Defense Procurement and Acquisition Policy officials to clarify and reinforce Federal regulations for the award of cost-reimbursement contracts.³

We performed this audit to determine whether contracting officials complied with established Federal regulations to minimize the contracting risks associated with the use of cost-reimbursement contracts.

Cost-Reimbursement Contract Requirements

Contracting officials use cost-reimbursement contracts when contracting officials cannot definitively describe work or estimate its costs with any reasonable degree of certainty. In addition, cost-reimbursement contracts provide little to no incentive for a contractor to limit costs, unless there is an incentive built into the contracts for that purpose. Cost-reimbursement contracts are high risk for the DoD due to the potential for cost escalation and because the Government pays a contractor's costs up to the amount obligated on the contract, even without a final deliverable. Specifically, cost-reimbursement contracts require contractors to put forth a best effort to perform and provide for payment of allowable, allocable, and reasonable incurred costs. These contracts establish an estimate of total cost for the purpose of obligating funds and establishing a ceiling that the contractor may not exceed (except at its own risk) without the approval of the contracting officer.

² Report No. DODIG-2013-059, "Air Force Needs Better Processes to Appropriately Justify and Manage Cost-Reimbursable Contracts," March 21, 2013. Report No. DODIG-2013-120, "Army Needs Better Processes to Justify and Manage Cost-Reimbursable Contracts," August 23, 2013. Report No. DODIG-2014-011, "Missile Defense Agency and Defense Microelectronics Activity Use of Cost-Reimbursable Contracts," November 22, 2013. Report No. DODIG-2014-092, "Navy and Marine Corps Have Weak Procurement Processes for Cost-Reimbursement Contract Issuance and Management," July 11, 2014.

³ Report No. DODIG-2015-029, "DoD Needs to Improve Processes for Issuing and Managing Cost-Reimbursement Contracts," November 7, 2014. On September 11, 2018, the Under Secretary of Defense of Acquisition and Sustainment renamed Defense Procurement and Acquisition Policy to Defense Pricing and Contracting.

Cost-reimbursement contracts are subject to requirements established in the Federal Acquisition Regulation (FAR). For our objective, we focused on five cost-reimbursement contract requirements outlined in the FAR.⁴

- Approval level
- Justification
- Transition strategy
- Adequate Government resources
- Adequate accounting system

The FAR requires contracting officials to include the five areas in the acquisition plan or contract file if an acquisition plan is not required.⁵ Acquisition planning is a process in which personnel responsible for an acquisition coordinate and integrate their efforts into a comprehensive plan to fulfill a need in a timely manner and at a fair and reasonable cost to the Government.

Approval Level

The FAR requires contracting officials to document the rationale for selecting the contract type in the acquisition plan and ensure the plan is approved and signed at least one level above the contracting officer.⁶ Additionally, contracting officials are required to obtain the approval of the head of the contracting activity before awarding cost-reimbursement contracts valued in excess of:

- \$50 million if awarded after October 1, 2018, and before October 1, 2019; and
- \$25 million if awarded on or after October 1, 2019.⁷

⁴ FAR Part 16, "Types of Contracts," Subpart 16.3, "Cost-Reimbursement Contracts."

⁵ FAR 16, Subpart 16.1, "Selecting Contract Types," Section 16.103(d), "Negotiating Contract Type." FAR 16.3, Section 16.301, "General."

⁶ FAR 16.103(d). FAR 16.301, Subsection 16.301-2, "Application." FAR 16.301, Subsection 16.301-3(a)(2), "Limitations." If an acquisition plan is not required, contracting officials are required to document the rationale for selecting the contract type in the contract file and obtain approval at least one level above the contracting officer.

⁷ Class Deviation 2019-O0001, "Use of Fixed-Price Contracts," November 27, 2018, implementing Section 829, "Preference for Fixed-Price Contracts," of the National Defense Authorization Act of 2017. As incorporated in Defense Federal Acquisition Regulation Supplement Part 216, "Types of Contracts," Subpart 216.3, "Cost-Reimbursement Contracts," Section 216.301-3, "Limitations," and Defense Federal Acquisition Regulation Supplement Subpart 216.4, "Incentive Contracts," Section 216.401(d)(ii), "General." The DoD OIG is aware that Section 817, "Repeal of preference for Fixed-Price Contracts," of the National Defense Authorization Act for FY 2022 repealed Section 829 of the National Defense Authorization Act for FY 2017. The DoD OIG anticipates that, in the future, Defense Pricing and Contracting may issue guidance and make changes to the Defense Federal Acquisition Regulation Supplement. However, the repeal of the preference for fixed-price contracts did not impact the findings identified in this report.

Justification

The FAR requires contracting officials to include the rationale for the selection of the contract type for contracts other than firm-fixed-price in the acquisition plan or contract file if an acquisition plan is not required.⁸ The rationale must include:

- why the contract type selected must be used to meet the agency needs, and
- a discussion of the Government's additional risks and responsibility to manage the contract type selected.

Transition Strategy

The FAR requires contracting officials to document in the acquisition plan, or contract file if an acquisition plan is not required, plans to minimize the use of other than firm-fixed-price contracts on future acquisitions for the same requirement and to transition to firm-fixed-price contracts to the maximum extent practicable.⁹

Adequate Government Resources

The FAR requires contracting officials to document in the acquisition plan or contract file if an acquisition plan is not required, which Government resources are necessary to properly plan for, award, and administer other than firm-fixed-price contracts.¹⁰ In addition, the FAR states that contracting officials may only use a cost-reimbursement contract when, before award of the contract, contracting officials determine that adequate Government resources are available to award and manage the contract.¹¹ Adequate Government resources include designating and authorizing a contracting officer's representative (COR) in accordance with agency procedures and Government resources for appropriate Government surveillance during performance to provide reasonable assurance that efficient methods and effective cost controls are used.

DoD Instruction 5000.72 required contracting officials to designate a properly trained COR in writing before award of all service contracts, including both firm-fixed-price and other than firm-fixed-price contracts, and supply contracts

⁸ FAR Part 7, "Acquisition Planning," Subpart 7.1, "Acquisition Plans," Section 7.105(b)(3), "Contents of Written Acquisition Plans." FAR 16.103(d). FAR 16.301-2(b).

⁹ FAR 7.105(b)(5)(iv) was re-designated to FAR 7.105(b)(5)(v) on August 11, 2021. FAR 16.103(d)(1)(iv)(D).

¹⁰ FAR 16.103(d)(1)(iv)(C).

¹¹ FAR 16.301, Subsection 16.301-3(a)(4), "Limitations."

with cost-reimbursement line items.¹² For cost-reimbursement contracts that are not service contracts, contracting officers are required to retain or delegate surveillance activities to a COR or to the Defense Contract Management Agency (DCMA).¹³

DoD Instruction 5000.72 establishes COR training requirements including the “Contracting Officer’s Representative” Defense Acquisition University course, annual ethics training, and combatting trafficking in persons training. CORs are required to complete COR refresher training every 3 years, ethics training every year, and combatting trafficking in persons training every 3 years.

Contracting officers are also required to notify the contractor and contract administration office of the COR’s designation of responsibilities and limits of authority. Additionally, contracting officials may delegate contract administration, either through interagency agreements or by direct request to the contract administration office.¹⁴

Adequate Accounting System

The FAR requires contracting officials to document in the acquisition plan, or contract file if an acquisition plan is not required, findings that detail the particular facts and circumstances, such as adequacy of the contractor’s accounting system.¹⁵ In addition, the FAR states that contracting officers may only use a cost-reimbursement contract when the contractor’s accounting system is adequate for determining costs applicable to the contract or order.¹⁶ Specifically, contracting officials must consider the accounting system when selecting a cost-reimbursement contract type to ensure that the contractor’s accounting system will permit timely development of all necessary cost data in the form required by the proposed contract type.¹⁷ In addition to the FAR requirements, the Defense Federal Acquisition Regulation Supplement (DFARS) requires contracting officials to consult an auditor or functional specialist to determine accounting system adequacy.¹⁸

¹² DoD Instruction 5000.72, “DoD Standard for Contracting Officer’s Representative (COR) Certification,” March 26, 2015; Incorporating Change 1, August 31, 2018. DoD Instruction 5000.72, “DoD Standard for Contracting Officer’s Representative (COR) Certification,” March 26, 2015; Incorporating Change 2, November 6, 2020, updated the requirement for contracting officials to designate a COR from before award to within 3 days of contract award. All 83 cost-reimbursement contracts we reviewed were awarded before November 2020.

¹³ Defense Federal Acquisition Regulation Supplement Procedures, Guidance and Information Part 201, “Federal Acquisition Regulations System,” Subpart 201.6, “Career Development, Contracting Authority, and Responsibilities,” Section 201.602, “Contracting Officers,” Subsection 201.602-2(d)(v)(B), “Responsibilities.”

¹⁴ FAR Part 42, “Contract Administration and Audit Services,” Subpart 42.2, “Contract Administration Services,” Section 42.202(a), “Assignment of Contract Administration.”

¹⁵ FAR 7.105(b)(3). FAR 16.103(d)(1)(iv)(B).

¹⁶ FAR 16.301-3(a)(3).

¹⁷ FAR 16.1, Section 16.104(i), “Factors in Selecting Contract Type.”

¹⁸ DFARS Part 242, “Contract Administration and Audit Services,” Subpart 242.75, “Contractor Accounting Systems and Related Controls,” Section 242.7502(b), “Policy.” To address this additional DFARS requirement, we verified that contracting officers either communicated with or reviewed reports completed by auditors and did not make the determination without this consultation.

Contracts Reviewed

We queried the Beta System for Award Management (BetaSAM) Data Bank and identified 2,762 cost-reimbursement contracts awarded by the Military Services from October 1, 2018, through September 30, 2020, valued at \$76.59 billion.

Table 1 summarizes the cost-reimbursement contracts in our universe.

Table 1. Cost-Reimbursement Contracts Universe.

Military Service	Number of Contracts	Total Contract Value*
Army	583	\$8,066,630,868
Navy and Marine Corps	1,261	30,305,794,003
Air Force	918	38,216,926,899
Total	2,762	\$76,589,351,770

* The total contract value represents base plus option years.

Source: The DoD OIG.

We nonstatistically selected 10 contracting offices based on the high value and number of contracts awarded by those offices, including previously audited Military Service contracting offices to review their compliance after implementing corrective actions in response to previous DoD OIG recommendations. We selected the previously audited contracting offices from prior DoD OIG cost-reimbursement audits that contained recommendations.¹⁹ Our sample consisted of 83 contracts valued at \$27.48 billion. Table 2 shows the number of cost-reimbursement contracts reviewed and the total contract value by each contracting office, for each Military Service. See Appendix B for the cost-reimbursement contracts reviewed for each Military Service.

¹⁹ The previously audited sites include: Army Contracting Command–Redstone Arsenal, Alabama; Army Contracting Command–Aberdeen Proving Ground–Fort Huachuca, Arizona; Naval Sea Systems Command, Washington Navy Yard, Washington, D.C.; Naval Supply Systems Command, San Diego, California; Marine Corps Systems Command, Quantico, Virginia; and Air Force Materiel Command, Robins Air Force Base, Georgia.

Table 2. Cost-Reimbursement Contracts Reviewed

Contracting Agency	Contracts Reviewed	Total Contract Value ¹
Army Contracting Command (ACC)– Redstone Arsenal, Alabama ²	7	\$3,237,173,617
ACC–Aberdeen Proving Ground (APG)– Adelphi, Maryland	7	740,765,420
ACC–APG–Ft. Huachuca, Arizona ²	6	33,048,107
Army Total	20	4,010,987,144
Naval Sea Systems Command (NAVSEA)– Washington Navy Yard, Washington, D.C. ²	10	7,562,933,085
Naval Air Systems Command (NAVAIR)– Lakehurst, New Jersey	12	190,570,842
Naval Supply Systems Command (NAVSUP)– San Diego, California ²	4	56,860,321
Marine Corps Systems Command (MCSC)– Quantico, Virginia ²	10	34,374,930
Navy Total	36	7,844,739,179
Air Force Materiel Command– Hill Air Force Base (AFB), Utah	6	13,474,970,661
Air Force Materiel Command– Wright-Patterson AFB, Ohio	15	1,653,410,312
Air Force Materiel Command– Robins AFB, Georgia ²	6	496,491,439
Air Force Total	27	15,624,872,412
Total	83	\$27,480,598,735

¹ The total contract value represents base plus option years. The individual contract values per site in this table do not add up to the overall totals due to rounding.

² The DoD OIG reviewed these contracting offices during previous audits on cost-reimbursement contracts that resulted in recommendations.

Source: The DoD OIG.

Research and Development Contracts

Contracting officials use cost-reimbursement contracts when circumstances do not allow for defined requirements sufficient for the execution of a fixed-price contract, such as in research and development (R&D). The FAR states that contracting officials are responsible for selecting the appropriate contract type for R&D contracts.²⁰ Additionally, the five cost-reimbursement contract requirements outlined in the FAR and DFARS we reviewed do not include exceptions for R&D contracts. The Under Secretary of Defense for Acquisition and

²⁰ FAR Part 35, “Research and Development Contracting,” Subpart 35.000, “Scope of Part,” Section 35.006(b), “Contracting Methods and Contract Type.”

Sustainment (USD[A&S]) has pre-approved the use of cost-reimbursement contracts for R&D valued in excess of \$25 million. However, the contracting officers must execute a written determination and findings that:

- the level of program risk does not permit realistic pricing, and
- it is not possible to provide an equitable and sensible allocation of program risk between the Government and the contractor.²¹

Our sample of 83 contracts included 41 R&D cost-reimbursement contracts. Contracting officials awarded R&D cost-reimbursement contracts through the Small Business Innovation Research (SBIR) program or under a Broad Agency Announcement (BAA). The SBIR program is a three-phase program that encourages domestic small businesses to engage in Federal R&D that has the potential for commercialization. The BAA is a tool that agencies use for the acquisition of basic and applied research and the part of development unrelated to the development of a specific system or hardware procurement. Agencies also use BAAs to fulfill their requirements for scientific study and experimentation directed towards increasing knowledge and understanding of applied research rather than focusing on a specific system or hardware solution.

R&D contracts generally have a high degree of performance risk because they have lesser-defined requirements that arise from the need to deal beyond, or very close to, the upper limits of current technology.

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.²²

We identified internal control weaknesses for implementing FAR and DoD regulations when awarding cost-reimbursement contracts. Specifically, the contracting offices reviewed did not consistently provide and implement specific policy or guidance for contracting officials to comply with Federal and DoD regulations when awarding cost-reimbursement contracts in the areas of approval, justification, transition strategy, adequate Government resources, and adequate accounting systems. Because of our audit, some contracting officials have taken corrective actions for contracts in our sample to comply with all five cost-reimbursement contract requirements when awarding cost-reimbursement contracts. Additionally, this report discusses several areas in which the DoD

²¹ Class Deviation 2019-O0001, "Use of Fixed-Price Contracts," November 27, 2018. As incorporated in DFARS Part 235, "Research and Development Contracting," Section 235.006, "Contracting Methods and Contract Type."

²² DoD Instruction 5010.40, "Manager's Internal Control Program Procedures," May 30, 2013, Incorporating Change 1, Effective June 30, 2020.

must clarify or strengthen its contracting policies to more consistently implement and comply with Federal regulations. We will provide a copy of the final report to senior officials responsible for internal controls within the Military Services and at OUSD(A&S).

Finding

Contracting Officials Did Not Always Comply with Federal and DoD Regulations for the Award of Cost-Reimbursement Contracts

Military Service contracting officials did not consistently award cost-reimbursement contracts in accordance with Federal and DoD regulations and guidance. Specifically, contracting officials consistently complied with cost-reimbursement contract requirements when awarding 38 of 83 cost-reimbursement contracts, valued at \$20.54 billion.²³ However, contracting officials did not consistently award the remaining 45 cost-reimbursement contracts, valued at \$6.94 billion, in accordance with Federal and DoD regulations and guidance.²⁴

Specifically, of the 83 contracts reviewed, contracting officials did not:

- obtain proper approval for the use of 11 cost-reimbursement contracts, valued at \$24 million;
- justify the use of 3 cost-reimbursement contracts, valued at \$5.32 million;
- document the possibility of a transition to firm-fixed-price contract for 42 cost-reimbursement contracts, valued at \$6.55 billion;
- ensure adequate Government resources were available to award and manage 8 cost-reimbursement contracts, valued at \$969.41 million; or
- determine the adequacy of the contractor's accounting system in consultation with auditors or functional specialist for 1 cost-reimbursement contract, valued at \$280,000.²⁵

Military Service contracting officials did not consistently comply with Federal and DoD regulations for the award of cost-reimbursement contracts because contracting officials thought Federal and DoD regulations for awarding cost-reimbursements contracts did not apply to R&D contracts, including those awarded under a BAA. In addition, contracting officials thought the requirement to document the possibility for a cost-reimbursement contract to transition to a firm-fixed-price contract did not apply when the contracting officials determined no follow-on contracts were needed after awarding the cost-reimbursement contract.

²³ The five cost-reimbursement contract requirements reviewed were approval level, justification, transition strategy, adequate Government resources, and adequate accounting system.

²⁴ Of the 45 cost-reimbursement contracts identified, contracting officials did not comply with one or more of the following cost-reimbursement contract requirements: approval level, justification, transition strategy, adequate Government resources, and adequate accounting system.

²⁵ For the cost-reimbursement contract, contracting officials determined the contractor's accounting system in accordance with FAR 16.104, but they did not comply with DFARS 242.7502, which requires that this determination be made in consultation with auditors or functional specialists.

As a result, Military Service contracting officials potentially increased contracting risks when awarding cost-reimbursement contracts without proper planning including approvals, justification, transition strategies, adequate Government resources, and adequate accounting systems. Specifically, contracting risks may increase for the DoD because of the potential for cost escalation and because the DoD pays contractor costs regardless of whether the work is completed.

Military Services' Compliance with Regulations in Award of Cost-Reimbursement Contracts

Military Service contracting officials complied with Federal and DoD regulations when awarding 38 of 83 contracts, valued at \$20.54 billion. Specifically, for the 38 contracts, contracting officials consistently complied with Federal and DoD regulations when documenting approvals, justifications, transition strategies, adequate Government resources, and adequate accounting systems in the acquisition plan or contract file. For example, one contracting office, ACC-APG-Adelphi, complied with all five cost-reimbursement contract requirements outlined in the Federal and DoD regulations when awarding each of the seven cost-reimbursement contracts reviewed at ACC-APG-Adelphi. Table 3 shows the total number of contracts reviewed and the number of contracts that complied with all five cost-reimbursement contract requirements. See Appendix B for results regarding the specific contracting offices.

Table 3. Military Service Contracts in Compliance with All Five Cost-Reimbursement Contract Requirements

Military Service	Contracts Reviewed	Contracts in Compliance	Total Contract Value
Army	20	11	\$3,505,622,376
Navy	26	4	1,533,385,348
Marine Corps	10	2	7,160,426
Air Force	27	21	15,494,417,472
Total	83	38	\$20,540,585,622

Source: The DoD OIG.

However, for the remaining 45 contracts in our sample, valued at \$6.94 billion, contracting officials did not consistently comply with Federal and DoD regulations. Specifically, contracting officials did not comply with one or more of the five cost-reimbursement contract requirements for properly obtaining and documenting approvals, justifications, transition strategies, adequate Government resources, and adequate accounting systems in the acquisition plan or contract file.

Table 4 shows the total number of contracts reviewed and the number of contracts that did not comply with one or more of the five cost-reimbursement contract requirements. See Appendix B for results regarding the specific contracting offices.

Table 4. Military Service Contracts Not in Compliance with One or More of the Five Cost-Reimbursement Contract Requirements.

Military Service	Contracts Reviewed	Contracts Not in Compliance	Total Contract Value
Army	20	9	\$505,364,768
Navy	26	22	6,276,978,900
Marine Corps	10	8	27,214,504
Air Force	27	6	130,454,939
Total	83	45	\$6,940,013,111

Source: The DoD OIG.

The following sections of the report discuss contracting officials' compliance with each individual cost-reimbursement contract requirement, for all 83 contracts reviewed. See Appendix B for details regarding the 83 contracts.

Contracting Officials Generally Obtained Proper Approval for Use of Cost-Reimbursement Contracts

Although Military Service contracting officials obtained proper approval for 72 of 83 cost-reimbursement contracts, valued at \$27.46 billion, contracting officials did not obtain proper approval for 11 of 83 contracts, valued at \$24 million, in accordance with the FAR and DFARS. Specifically, for the 72 contracts, contracting officials documented the contract type selection and proper approval for the use of a cost-reimbursement contract in the acquisition plan or contract file. For example, contracting officials at ACC-APG-Adelphi obtained proper approval for use of seven cost-reimbursement contracts reviewed, valued at \$740.76 million. Specifically, contracting officials:

- obtained approval at least one level above the contracting officer for three contracts;
- obtained approval by the head of the contracting activity for one contract; and
- obtained approval by OUSD(A&S) for three R&D contracts.

The FAR requires contracting officials to document the rationale for selecting the contract type in the acquisition plan and ensure the plan is approved and signed at least one level above the contracting officer.²⁶ In addition, if an acquisition plan is not required, the FAR requires contracting officials to document the rationale for selecting the contract type in the contract file and obtain approval at least one level above the contracting officer.²⁷

For the 11 contracts that contracting officials awarded without obtaining proper approval for the use of cost-reimbursement contracts, contracting officials stated that the noncompliance was an oversight, or another program or organization already approved the contract type that authorized the contract solicitation and source selection procedures. Table 5 shows the total number of contracts reviewed and the number of contracts that did not comply with the approval requirement by Military Service. See Appendix B for results on the specific contracting offices.

Table 5. Approval for Cost-Reimbursement Contracts Reviewed

Military Service	Contracts Reviewed	Contracting Office	Contracts Reviewed Without Proper Approval	Total Contract Value
Army	20	ACC-APG-Ft. Huachuca	3	\$6,663,780
Navy	26		0	0
Marine Corps	10	MCSC-Quantico	7	15,914,504
Air Force	27	Robins AFB	1	1,499,966
Total	83		11	\$24,078,250

Source: The DoD OIG.

Contracting officials at MCSC-Quantico and Robins AFB stated that they did not obtain proper approval for the use of eight cost-reimbursement contracts because of an oversight.²⁸ For example, a contracting official at Robins AFB stated that he was unaware of the FAR approval requirement. Additionally, a contracting official at MCSC-Quantico stated that the noncompliance with the requirement to obtain proper approval for seven contracts was originally an oversight that was identified and corrected. The contracting official added that the seven contracts were R&D contracts awarded through SBIR program and that the MCSC SBIR office

²⁶ FAR 16.103(d). FAR 16.301-2(b). FAR 16.301-3(a)(2). If an acquisition plan is not required, contracting officials are required to document the rationale for selecting the contract type in the contract file and obtain approval at least one level above the contracting officer.

²⁷ FAR 16.103(d). FAR 16.301-2(b). FAR 16.301-3(a)(2).

²⁸ Of the eight contracts identified, contracting officials at MCSC-Quantico awarded seven contracts and contracting officials at Robins AFB awarded one contract.

identified the noncompliance after contracting officials awarded the contracts. In August 2020, the MCSC SBIR office took corrective action to ensure contracting officials obtain proper approval for cost-reimbursement contracts by implementing a standard form to document contract type, which is required to be approved one level above the contracting officer. Because the MCSC SBIR office took corrective action, we did not include a recommendation in this area.

Contracting officials at ACC-APG-Fort Huachuca did not obtain proper approval for the use of three cost-reimbursement contracts. This occurred because contracting officials believed that they were not responsible for processing pre-award requirements. Specifically, contracting officials stated that they awarded the contracts through the SBIR program and that in accordance with ACC-APG SBIR standard operating procedures (SOPs) and processes, the determination of pre-award requirements, contract value, and contract awardee were pre-determined. Although we agree that the determinations identified by the contracting officials are pre-determined for SBIR awards, determining contract type is not pre-determined.

In addition, contracting officials stated that the contracts were R&D contracts awarded through the SBIR program under a BAA, and that written acquisition plans or determination and findings for contract type were not applicable to R&D contracts.²⁹ In the instances in

which an acquisition plan was not required, contracting officials did not include any documentation in the contract files to support proper approval for the contract type, as required by the FAR. Since the FAR states that the use of

In the instances in which an acquisition plan was not required, contracting officials did not include any documentation in the contract files to support proper approval for the contract type, as required by the FAR.

cost-reimbursement contracts is appropriate for R&D contracts, the contracting officials are responsible for documenting the need to use a cost-reimbursement contract type in the acquisition plan or contract file and obtain proper approval.³⁰

In February 2021, ACC-APG issued a standard operating procedure (SOP) for awarding SBIR contracts. Although the SOP states that contracting officials may award cost-reimbursement contracts in accordance with the FAR and DFARS, the SOP also states that the contract file for SBIR BAA contracts does not need to

²⁹ Two of the three contracts were awarded through the SBIR program under a BAA.

³⁰ FAR 16.103(d). FAR 16.301-2(b). FAR 16.301-3(a)(2). FAR 35.006(c).

include any pre-solicitation or solicitation documentation other than a copy of the solicitation. However, the FAR does not exempt contracting officials from obtaining the required approval of at least one level above the contracting officer to issue the award on a cost-reimbursement basis. In addition, a DPC official agreed that there are no exemptions for R&D contracts issued under a BAA, and that contract officials must obtain proper approval for using cost-reimbursement contracts.

Therefore, the Director of Contracting, ACC-APG-Fort Huachuca, should develop, distribute, and implement procedures for contracting officials to obtain and document in the contract file the proper approval for the use of cost-reimbursement contracts regardless of the nature of the contract, or when an acquisition plan is not required. In addition, the Chief of Contracting Operations, ACC-APG, should update procedures for awarding cost-reimbursement contracts through the Small Business Innovation Research program to require contracting officials, at minimum, to obtain and document in the acquisition plan or contract file the proper approval for the use of cost-reimbursement contracts, in accordance with the FAR.

Previous DoD OIG Recommendations Related to the Approval of Cost-Reimbursement Contracts

In a prior series of cost-reimbursement-contract related audits, the DoD OIG issued recommendations to NAVSEA-Washington Navy Yard, MCSC-Quantico, and Robins AFB contracting officials to address noncompliance with obtaining proper approval for the use of cost-reimbursement contracts.³¹ Specifically, the DoD OIG recommended that contracting officials at NAVSEA-Washington Navy Yard, MCSC-Quantico, and Robins AFB develop or update checklists for contracting officials to ensure proper approval for the use of cost-reimbursement contracts. Contracting officials agreed with the DoD OIG recommendations, and updated checklists, handbooks, and training modules to include the requirements for cost-reimbursement contracts.

Although contracting officials agreed with the DoD OIG's previous recommendations and implemented corrective actions, we found that contracting officials at two of three contracting offices that we previously audited continued to issue contracts without approvals. The contracting officials at these two locations determined that the lack of approval required by the FAR was an oversight of the

³¹ Report No. DODIG-2013-059 and DODIG-2014-092.

contracting officer. Table 6 shows the contracting offices we reviewed during this audit with previous recommendations, the number of contracts reviewed, and the number of contracts that complied with the approval requirement.

Table 6. Contracting Offices with Previous Recommendations Related to Approval for Cost-Reimbursement Contracts.

Contracting Offices with Prior Recommendations	Contracts Reviewed	Contracts Reviewed Without Proper Approval
NAVSEA–Washington Navy Yard	10	0
MCSC–Quantico	10	7
Robins AFB	6	1
Total	26	8

Source: The DoD OIG.

The DoD OIG also issued recommendations to Defense Procurement and Acquisition Policy officials to reinforce the applicability of current guidance or clarify when cost-reimbursement contracts should be approved one level above the contracting official, including whether approval is required if a written acquisition plan is not also required for the contract.³² Defense Procurement and Acquisition Policy contracting officials agreed with the recommendations and issued a memorandum stating that all cost-reimbursement contracts are subject to the requirements set forth in the FAR.³³ The DoD OIG also recommended that Defense Procurement and Acquisition Policy contracting officials reinforce that there are no exceptions to documenting the requirements within cost-reimbursement contract files, regardless of the nature of the contract. In response to the previous recommendation, Defense Procurement and Acquisition Policy officials stated that the FAR clearly sets forth the requirements to document in the contract files for cost-reimbursement contracts. Therefore, the Principal Director, DPC should issue a memorandum or other guidance to clarify whether any exemptions exist regarding the requirement for contracting officials to document in the contract file the approval for use of cost-reimbursement contracts regardless of the nature of the contract, or when an acquisition plan is not required.

³² We issued the recommendations to Defense Procurement and Acquisition Policy (DPAP) in report No. DODIG-2015-029; however, OUSD(A&S) renamed DPAP to Defense Pricing and Contracting, on September 11, 2018.

³³ Defense Procurement and Acquisition Policy Memorandum, “Guidance on Using Incentive and Other Contract Types,” April 1, 2016. FAR 16.301-3.

Contracting Officials Generally Justified the Use of Cost-Reimbursement Contracts

Although Military Service contracting officials properly documented justification for the use of cost-reimbursement contracts for 80 of 83 contracts, valued at \$27.48 billion, contracting officials did not properly document justification for the use of 3 cost-reimbursement contracts, valued at \$5.32 million, in accordance with the FAR. Specifically, for the 80 contracts, contracting officials documented the rationale for the use of cost-reimbursement contracts in acquisition plans, determination and findings for contract type, and business clearance memorandums. For example, a contracting official at NAVSEA–Washington Navy Yard properly documented the justification for the use of a cost-reimbursement contract in the contract file, stating that the contract type was necessary to properly manage and ensure requirements were met, and to rapidly meet technical, schedule, and safety requirements for the program. The FAR requires contracting officials to include the rationale for the selection of the contract type for other than firm-fixed-price contracts in the acquisition plan, or contract file, if an acquisition plan is not required.³⁴

For the three contracts contracting officials awarded without proper documentation in the acquisition plan or contract file to justify the use of cost-reimbursement contracts, contracting officials stated that the noncompliance was an oversight, or that the justification requirement was not their responsibility because another program or organization authorized the contract solicitation and source selection procedures. Table 7 shows the total number of contracts reviewed and the number of contracts that did not comply with the justification requirement by Military Service. See Appendix B for results on the specific contracting offices.

Table 7. Justification for Cost-Reimbursement Contracts

Military Service	Contracts Reviewed	Contracting Office	Contracts Reviewed Without Documented Justification	Total Contract Value
Army	20	ACC–APG–Ft. Huachuca	2	\$3,822,782
Navy	26		0	0
Marine Corps	10		0	0
Air Force	27	Robins AFB	1	1,499,966
Total	83		3	\$5,322,748

Source: The DoD OIG.

³⁴ FAR 7.105(b)(3). FAR 16.103(d)(1). FAR 16.301-2(b).

A contracting official at Robins AFB stated that he was unaware of the justification requirement and that his noncompliance with documenting the justification for use of a cost-reimbursement contract was an oversight.

Contracting officials at ACC-APG-Fort Huachuca stated that they did not properly document the justification for the use of two cost-reimbursement contracts because they believed that they were not responsible for processing pre-award requirements. Specifically, contracting officials stated that they awarded the contracts through the SBIR program and that in accordance with ACC-APG SBIR SOP and processes, the determination of pre-award requirements, contract value, and contract awardee were pre-determined. Although we agree that the determinations identified by the contracting officials are pre-determined for SBIR awards, the determination and justification for contract type is not pre-determined.

The ACC-APG SOP for awarding SBIR contracts states that the contract file for SBIR BAA contracts does not need to include any pre-solicitation or solicitation documentation other than a copy of the solicitation. However, the FAR does not exempt contracting officials from documenting a justification for the use of a cost-reimbursement contract in the acquisition plan, or contract file if an acquisition plan is not required. A DPC official agreed that there are no exemptions for contracts issued under a BAA, and contract officials must document the justification for using cost-reimbursement contracts in the acquisition plan or contract file if an acquisition plan is not required. Therefore, the Director of Contracting, ACC-APG-Fort Huachuca, should develop, distribute, and implement procedures for contracting officials to document in the contract file the justification for the use of cost-reimbursement contracts regardless of the nature of the contract, or when an acquisition plan is not required. In addition, the Chief of Contracting Operations, ACC-APG should update procedures for awarding cost-reimbursement contracts through the Small Business Innovation Research program to require contracting officials, at minimum, to document in the acquisition plan or contract file the justification for the use of cost-reimbursement contracts, in accordance with the FAR.

The FAR does not exempt contracting officials from documenting a justification for the use of a cost-reimbursement contract in the acquisition plan, or contract file if an acquisition plan is not required.

Contracting Officials Did Not Always Document a Transition Strategy for Cost-Reimbursement Contracts

Although Military Service contracting officials properly documented the potential for cost-reimbursement contracts to transition to firm-fixed-price for 41 of 83 contracts, valued at \$20.93 billion, contracting officials did not properly document, in accordance with the FAR, the potential for cost-reimbursement contracts to transition to firm-fixed-price for 42 of 83 contracts, valued at \$6.55 billion. Specifically, for the 41 contracts, contracting officials included statements within the acquisition plan, or contract file discussing how the contract requirements could transition as the acquisition process matured from development to production or contracting officials documented that the future contract requirements could not transition to a firm-fixed-price contract. The FAR requires contracting officials to document in the acquisition plan, or contract file if an acquisition plan is not required, strategies for the cost-reimbursement contracts to transition to firm-fixed-price contracts to the maximum extent practicable.³⁵

For the 42 contracts contracting officials awarded without properly documenting the potential for the cost-reimbursement contracts to transition to firm-fixed-price in accordance with the FAR, contracting officials stated that they did not document the transition strategy because:

- it was an oversight;
- the transition strategy requirement was not their responsibility since another program or organization authorized the contract solicitation and source selection procedures;
- the transition strategy was not required based on their interpretation of the FAR; or
- no opportunities to transition existed.

Table 8 shows the total number of contracts reviewed and the number of contracts that did not comply with the transition strategy requirement by Military Service. See Appendix B for results on the specific contracting offices.

³⁵ FAR Subpart 7.105(b)(5)(v). FAR 16.103(d)(1)(iv)(D). We considered compliance with FAR requirements to be adequate when contracting officials documented that future contract requirements would likely never transition to firm-fixed-price contracts.

Table 8. Transition Strategy for Cost-Reimbursement Contracts

Military Service	Contracts Reviewed	Contracting Office	Contracts Reviewed Without Documented Transition Strategy	Total Contract Value
Army	20	ACC–Redstone Arsenal	3	\$163,979,384
		ACC–APG–Ft. Huachuca	5	12,867,897
Navy	26	NAVSEA–Washington Navy Yard	8	6,038,971,801
		NAVAIR–Lakehurst	12	190,570,842
		NAVSUP–San Diego	2	47,436,257
Marine Corps	10	MCSC–Quantico	7	26,420,753
Air Force	27	Hill AFB	3	12,833,304
		Wright-Patterson AFB	1	54,302,024
		Robins AFB	1	1,499,966
Total	83		42	\$6,548,882,228

Source: The DoD OIG.

Contracting officials at ACC–APG–Fort Huachuca, NAVSEA–Washington Navy Yard, NAVSUP–San Diego, Wright-Patterson AFB, and Robins AFB stated that they did not properly document the potential for eight cost-reimbursement contracts to transition to firm-fixed-price because of an oversight.³⁶

Additionally, contracting officials at ACC–APG–Fort Huachuca did not properly document the potential for three cost-reimbursement contracts to transition to firm-fixed-price because they believed that documenting the transition strategy requirement was not their responsibility because another program or organization authorized the contract solicitation and source selection procedures. Specifically, contracting officials stated that the transition strategy requirement did not apply to these contracts because contracting officials awarded the contracts through the SBIR program under a BAA and that a different office or organization processed the pre-award requirements. In addition, the ACC–APG SOP for awarding SBIR contracts states that the contract file for SBIR BAA contracts does not need to include any pre-solicitation or solicitation documentation other than a copy

³⁶ Of the eight contracts identified, contracting officials at ACC–APG–Fort Huachuca awarded two contracts, contracting officials at NAVSEA–Washington Navy Yard awarded two contracts, contracting officials at NAVSUP–San Diego awarded two contracts, contracting officials at Wright-Patterson AFB awarded one contract, and contracting officials at Robins AFB awarded one contract.

The FAR does not exempt contracting officials from documenting strategies for cost-reimbursement contracts to transition to firm-fixed-price to the maximum extent practicable.

of the solicitation. However, the FAR does not exempt contracting officials from documenting strategies for cost-reimbursement contracts to transition to firm-fixed-price to the maximum extent practicable. Additionally, a DPC official agreed that there are no exemptions for cost-reimbursement contracts issued under a BAA and that contracting officials are required to document the potential for cost-reimbursement contracts to transition to firm-fixed-price contracts.

Therefore, the Director of Contracting, ACC-APG-Fort Huachuca, should develop, distribute, and implement procedures for contracting officials to document in the contract file the potential for cost-reimbursement contracts to transition to firm-fixed-price contracts to the maximum extent practicable, regardless of the nature of the contract, or when an acquisition plan is not required. In addition, the Chief of Contracting Operations, ACC-APG, should update procedures for awarding cost-reimbursement contracts through the Small Business Innovation Research program to require contracting officials, at minimum, to document in the acquisition plan or contract file the potential for cost-reimbursement contracts to transition to firm-fixed-price contracts, in accordance with the FAR.

Clarification on Guidance Needed to Better Implement FAR Requirements When Documenting Transition Strategies

We determined that contracting officials inconsistently interpreted the guidance outlined in the FAR for documenting transition strategies in the acquisition plan or contract file. Specifically, the FAR uses the words “shall” and “should” in the same section related to documenting transition strategies in the acquisition plan, or contract file if an acquisition plan is not required. The FAR defines “shall” as an obligation to act and “should” as an expected course of action or policy that is to be followed unless inappropriate for a particular circumstance. In addition, contracting officials believed that a documented transition strategy was not required when they did not anticipate future requirements for a contract or order.

Contracting officials at NAVAIR-Lakehurst, and MCSC-Quantico did not properly document the potential for cost-reimbursement contracts to transition to firm-fixed-price contracts for 18 contracts because of their interpretation of the FAR.³⁷ For example, contracting officials at NAVAIR-Lakehurst stated that at the time of award there were no future requirements expected for 12 contracts and that a

³⁷ Of the 18 contracts identified, contracting officials at NAVAIR-Lakehurst awarded 12 contracts, and contracting officials at MCSC-Quantico awarded 6 contracts.

documented transition strategy was not required because of their interpretation of the FAR. Specifically, the FAR uses “shall” when identifying specific documentation to include in acquisition plans or contract file, if an acquisition plan is not required, to show why a particular contract type was selected.³⁸ However, NAVAIR–Lakehurst contract officials stated that the same section of the FAR also uses “should” stating that for other than a firm-fixed-price contract, at a minimum the documentation should include a transition strategy.³⁹

In addition, contracting officials at MCSC–Quantico stated that a documented transition strategy did not seem appropriate to address in the contract file for six contracts because the contracts were for R&D efforts that may or may not result in future requirements and that the FAR states that the use of cost-reimbursement contracts is appropriate for R&D contracts.⁴⁰ However, based on the FAR R&D requirements and the cost-reimbursement provisions, contracting officials are responsible for documenting in the acquisition plan or contract file the potential for cost-reimbursement contracts to transition to firm-fixed-price contracts to the maximum extent practicable.⁴¹ As a result, we disagreed that a documented transition strategy in the acquisition plan or contract file is not required when contracting officials do not expect future requirements for a cost-reimbursement contract, or when contracting officials determine that future requirements cannot transition to a firm-fixed-price contract.

Contracting officials should include statements within the acquisition plan or contract file to document that the future requirements for a cost-reimbursement contract cannot transition to a firm-fixed-price contract, or that contracting officials do not anticipate future requirements for a cost-reimbursement contract. Therefore, the Assistant Commander of Contracts, Marine Corps System Command, should develop and

distribute guidance requiring contracting officials to obtain and document in the acquisition plan or contract file the potential for cost-reimbursement contracts to transition to firm-fixed-price contracts to the maximum extent practicable.

Contracting officials should include statements within the acquisition plan or contract file to document that the future requirements for a cost-reimbursement contract cannot transition to a firm-fixed-price contract, or that contracting officials do not anticipate future requirements for a cost-reimbursement contract.

³⁸ FAR 16.103(d)(1).

³⁹ FAR 16.103(d)(1)(iv)(D).

⁴⁰ FAR 35.006(c).

⁴¹ FAR 7.105(b)(5)(v). FAR 16.103(d)(1)(iv)(D). FAR 35.006(c).

Additionally, the procedures should require contracting officials to document the nature of cost-reimbursement contracts and the inability to transition to a firm-fixed-price contract in the acquisition plan or contract file.

Additionally, contracting officials at ACC–Redstone Arsenal, NAVSEA–Washington Navy Yard, MCSC–Quantico, and Hill AFB did not properly document the potential for 12 cost-reimbursement contracts to transition to firm-fixed-price because they determined no future requirements were expected for the contracts, or there was no potential for the contracts to transition to firm-fixed-price, but they failed to document this in the acquisition plan or contract file.⁴²

We also identified confusion related to defining “future requirements” across the contracting offices reviewed. For example, a contracting official at ACC–Redstone Arsenal interpreted future requirements related to a R&D contract to be limited to further research, and not the production that could result from that research. Additionally, a contracting official at MCSC–Quantico did not consider future requirements applicable to a contract because they planned to add the requirements into an existing contract. We disagreed that adding requirements to an existing contract indicates that there are no future requirements. Specifically, future requirements existed, but were obtained by different means, and contracting officials should have discussed the future requirements in the acquisition plan or contract file as part of acquisition planning.

Previous DoD OIG Recommendations Related to Documenting Transition Strategies for Cost-Reimbursement Contracts

In a prior series of cost-reimbursement-contract related audits, the DoD OIG issued recommendations to ACC–Redstone Arsenal, NAVSEA–Washington Navy Yard, and MCSC–Quantico contracting officials to address noncompliance with documenting strategies for cost-reimbursement contracts to transition to firm-fixed-price contracts.⁴³ Specifically, the DoD OIG recommended that contracting officials at ACC–Redstone Arsenal establish procedures for documenting the possibility of transitioning cost-reimbursement contracts to firm-fixed-price contracts. Contracting officials agreed with the recommendation and issued a policy alert emphasizing cost-reimbursement contract requirements.⁴⁴

⁴² Of the 12 contracts identified, contracting officials at ACC–Redstone Arsenal awarded 3 contracts; contracting officials at NAVSEA–Washington Navy Yard awarded 6 contracts; contracting officials at MCSC–Quantico awarded 1 contract; and contracting officials at Hill AFB awarded 2 contracts.

⁴³ Report No. DODIG-2014-092 and DODIG-2013-120.

⁴⁴ ACC–RSA contracting officials did not update procedures because the requirements for cost-reimbursement contracts are outlined in the FAR.

Additionally, the DoD OIG recommended that contracting officials at NAVSEA-Washington Navy Yard and MCSC-Quantico establish better communication channels, at minimum, between the requiring component, contracting officials, and contract monitors to more effectively identify opportunities to transition away from cost-reimbursement contracts when possible. Contracting officials agreed with the recommendations and updated command orders and newsletters to address the recommendations.

Although contracting officials agreed with the DoD OIG's previous recommendations and implemented corrective actions, we found that the three contracting offices with previous recommendations on compliance for transition strategy did not consistently comply with the FAR for documenting the potential for cost-reimbursement contracts to transition to firm-fixed-price contracts. Table 9 shows the contracting offices we reviewed during this audit with previous recommendations, the number of contracts reviewed, and the number of contracts that did not comply with the requirement to document a transition strategy for cost-reimbursement contracts.

Table 9. Contracting Offices with Previous Recommendations Related to Transition Strategies for Cost-Reimbursement Contracts.

Contracting Offices with Prior Recommendations	Contracts Reviewed	Contracts Reviewed Without Documented Transition Strategies
ACC-Redstone Arsenal	7	3
NAVSEA-Washington Navy Yard	10	8
MCSC-Quantico	10	7
Total	27	18

Source: The DoD OIG.

The DoD OIG also recommended that Defense Procurement and Acquisition Policy contracting officials reinforce current regulations regarding the requirement to consider how a cost-reimbursement contract could transition to a firm-fixed-price contract in the future.⁴⁵ Defense Procurement and Acquisition Policy contracting officials agreed with the recommendation and issued a memorandum providing guidance to contracting officials for using cost-reimbursement contract types.⁴⁶ However, the memorandum did not discuss the requirement to consider and document whether a cost-reimbursement contract could transition to a firm-fixed-price contract in the future. Therefore, the Principal Director, DPC should issue a

⁴⁵ Report No. DODIG-2015-029.

⁴⁶ Defense Procurement and Acquisition Policy Memorandum, "Guidance on Using Incentive and Other Contract Types," April 1, 2016.

memorandum or other guidance to reinforce the applicability of current regulations related to determining and documenting how future requirements can transition to a firm-fixed-price contract. At minimum, the memorandum should clarify whether any exemptions exist regarding the requirement for contracting officials to document in the acquisition plan or contract file the potential for cost-reimbursement contracts to transition to firm-fixed-price contracts to the maximum extent practicable. Additionally, the guidance should clarify whether contracting officials are required to document in the acquisition plan or contract file the inability to transition to a firm-fixed-price contract.

Contracting Officials Generally Ensured Adequate Government Resources were Available Before Awarding Cost-Reimbursement Contracts

Although Military Service contracting officials ensured adequate Government resources were available to award and manage 75 of 83 contracts, valued at \$26.51 billion, contracting officials did not ensure adequate Government resources were available to award and manage 8 of 83 contracts, valued at \$969.41 million, in accordance with the FAR and DoD regulations and guidance. For the 75 contracts, contracting officials documented in the acquisition plan or contract file whether sufficient Government resources were available to award and manage the contract. Specifically, contracting officials:

- designated a COR in accordance with FAR and DoD regulations and guidance;⁴⁷
- delegated contract administration to DCMA; or
- retained contract administration duties.

The FAR requires contracting officials to document in the acquisition plan or contract file if an acquisition plan is not required, what Government resources are necessary to properly plan for, award, and administer other than firm-fixed price contracts.⁴⁸ In addition, the FAR states that contracting officers may only use a cost-reimbursement contract when, before award of the contract, adequate Government resources are available to award and manage the contract.⁴⁹ Adequate Government resources include designating and authorizing a COR in accordance with agency procedures, and resources to provide appropriate Government surveillance during performance to provide reasonable assurance that efficient methods and effective cost controls are used.

⁴⁷ CORs assigned to the cost-reimbursement contracts were adequately trained and were designated before the contract award date.

⁴⁸ FAR 16.103(d)(1)(iii). FAR 16.103(d)(1)(iv)(C).

⁴⁹ FAR 16.301-3(a)(4).

For the eight contracts contracting officials awarded without ensuring adequate Government resources were available to award and manage the cost-reimbursement contracts, contracting officials stated that the noncompliance was because of system and administrative issues with designating a COR before contract award, or they believed that the designation of a COR was not required because of the nature of the contract. Specifically, contracting officials did not designate a COR before contract award in accordance with DoD regulations and guidance, or did not establish in the acquisition plan or contract file whether the contracting officer was retaining contract administration duties or delegating contract administration to DCMA or a COR. Table 10 shows the total number of contracts reviewed and the number of contracts that did not comply with the adequate Government resources requirement by Military Service. See Appendix B for results on the specific contracting offices.

Table 10. Adequate Government Resources for Cost-Reimbursement Contracts Before Award

Military Service	Contracts Reviewed	Contracting Offices	Contracts Reviewed Without Adequate Government Resources	Total Contract Value
Army	20	ACC–Redstone Arsenal	2	\$336,259,134
Navy	26	NAVSEA–Washington Navy Yard	1	557,673,780
		NAVSUP–San Diego	1	2,811,514
Marine Corps	10		0	0
Air Force	27	Hill AFB	2	9,349,016
		Robins AFB	2	63,319,611
Total	83		8	\$969,413,055

Source: The DoD OIG.

Contracting officials at ACC–Redstone Arsenal, NAVSEA–Washington Navy Yard, and Robins AFB did not designate a COR before awarding four cost-reimbursement contracts in accordance with DoD regulations and guidance because of system or administrative issues. Specifically, contracting officials at ACC–Redstone Arsenal and NAVSEA–Washington Navy Yard stated that they did not designate a COR before the award of two cost-reimbursement contracts because the system for appointing CORs to a contract has limitations that caused delays with designating CORs, or did not allow contracting officers to appoint CORs until after the contract

was awarded and posted in the Electronic Document Access system.⁵⁰ Additionally, a contracting official at ACC–Redstone Arsenal stated that the COR that was nominated for one contract transferred to a different directorate and that the program office did not provide a new COR nominee until after contract award. A contracting official at Robins AFB stated she did not designate a COR before the award of one contract because of stalled contract negotiations and multiple changes in employment.

Contracting officials at NAVSUP–San Diego and Robins AFB did not establish in the acquisition plan or contract file whether the contracting officer was retaining contract administration duties or designating a COR for two cost-reimbursement contracts. Specifically, a contracting official at Robins AFB stated that he did not designate a COR to a contract because the project manager served as the COR for the contract; however, the contracting official did not document the responsibilities of the project manager in the acquisition plan or contract file. Additionally, a contracting official at NAVSUP–San Diego responsible for one contract believed that the designation of a COR was not required because of the nature of the contract. Specifically, the NAVSUP–San Diego contracting official stated that the contract was a service contract that required little to no monitoring of performance, and that a designated COR was not required. The contracting official stated that she would appoint a COR to the contract as necessary; however, the contracting official did not document this in the acquisition plan or contract file.

Delegation of Contract Administration Functions to the Defense Contract Management Agency

Contracting officials across the Military Services used different methods to delegate contract administration duties to DCMA. The FAR states that contracting officials may delegate contract administration, either through interagency agreements or by direct request to the contract administration office.⁵¹ For example, contracting officials at ACC–APG–Adelphi, NAVSEA–Washington Navy Yard, NAVSUP–San Diego, MCSC–Quantico, Hill AFB, and Wright-Patterson AFB used letters of delegation outlining specific contract administration responsibilities the contracting official delegated to DCMA. Additionally, in some of these delegation letters, the contracting officials requested a response from DCMA to confirm that DCMA accepted or acknowledged the delegation. However, contracting officials at NAVAIR–Lakehurst, Hill AFB, and Robins AFB did not use delegation letters to delegate contract administration functions.⁵² Instead, contracting officials

⁵⁰ Of the two contracts identified, contracting officials at ACC–Redstone Arsenal and NAVSEA–Washington Navy Yard each awarded one contract.

⁵¹ FAR 42.202(a).

⁵² ACC–APG–Fort Huachuca retained contract administration duties for all contracts reviewed.

delegated contract administration duties to DCMA at contract award, through the Electronic Document Access system without confirming whether DCMA accepted or acknowledged the contract administration duties.

DCMA officials stated that when contracting officials delegate contract administration duties to DCMA through the Electronic Document Access system, the system notifies DCMA of their duties after contract award. In August 2021, DCMA officials expressed concerns with contracting officials not using the resources DCMA has in place to assist contracting officials with defining contract requirements and applicable administration duties before contract award. For example, DCMA officials stated that each Military Service has customer engagement liaisons who are acquisition support analysts. In addition, DCMA officials stated that DCMA has a tool where contracting officials can locate the DCMA field office that would most likely be assigned to an award.⁵³ If contracting officials include DCMA before award and during the planning process, then contracting officials can ensure adequate Government resources are in place before contract award.

The Principal Director, DPC should issue a memorandum or other guidance to emphasize coordination between contracting officials and DCMA as part of acquisition planning, to ensure adequate Government resources are available to award and manage cost-reimbursement contracts before contract award. The Military Services should establish a process to formalize communication between contracting officials and DCMA throughout the contracting process to identify and document in the acquisition plan or contract file that adequate Government resources are available to award and manage cost-reimbursement contracts before contract award in accordance with Federal and DoD regulations.

Contracting Officials Generally Determined Contractor Accounting System Adequacy for Cost-Reimbursement Contracts

Military Service contracting officials determined the adequacy of each contractors' accounting system in consultation with auditors or functional specialists for 82 of 83 contracts, valued at \$27.48 billion, in accordance with the FAR and DoD regulations. Specifically, in all but one contract reviewed, contracting officials relied on Defense Contract Audit Agency or DCMA audit assessments and determinations to ensure that the contractor's accounting system was adequate. The FAR states that contracting officials may only use a cost-reimbursement contract when the contractor's accounting system is adequate for determining costs applicable to the contract or order.⁵⁴ Additionally, the FAR requires contracting

⁵³ Contracting officials can locate DCMA field offices by accessing DCMA's Electronic Tools portal.

⁵⁴ FAR 16.301-3(a)(3).

officials to document in the acquisition plan, or contract file if an acquisition plan is not required, the particular facts and circumstances, such as adequacy of the contractor's accounting system, and associated reasoning to support the contract type selection.⁵⁵ In addition to the FAR requirements, the DFARS requires contracting officials to consult an auditor or functional specialist to determine the accounting system adequacy.⁵⁶

However, a contracting official at Hill AFB did not document the adequacy of the contractor's accounting system in consultation with auditors or functional specialists for one contract, valued at \$280,000, in accordance with the DFARS. The contracting official stated that he worked closely with DCMA personnel throughout the process of evaluating the contractor's accounting system; however, the contracting official did not include documentation related to DCMA's involvement in evaluating the contractor's accounting system in the acquisition plan or contract file. Because contracting officials may only use a cost-reimbursement contract when the contractor's accounting system is adequate, it is essential for contracting officers to ensure that functional specialists, such as DCMA personnel, are involved to determine the adequacy of the contractor's accounting system before awarding a cost-reimbursement contract. Contracting officials should require and ensure contract files contain complete correspondence to meet essential DFARS requirements specific to the adequacy of contractors' accounting system.

Previous DoD OIG Recommendations Related to Adequate Accounting Systems for Cost-Reimbursement Contracts

In a prior series of cost-reimbursement-contract related audits, the DoD OIG issued recommendations to ACC-APG-Fort Huachuca, NAVSEA-Washington Navy Yard, and NAVSUP-San Diego contracting officials to address noncompliance with documenting that the contractors' accounting system was adequate when awarding cost-reimbursement contracts.⁵⁷ Specifically, the DoD OIG recommended that contracting officials at ACC-APG-Fort Huachuca reemphasize the requirement that contracting officers should determine that contractors have an adequate accounting system in place before issuing a cost-reimbursement contract. Contracting officials agreed with the previous recommendation and implemented requirements and training to address the recommendation. Additionally, the

⁵⁵ FAR 7.105(b)(3). FAR 16.103(d)(1)(iv)(B).

⁵⁶ DFARS Part 242, "Contract Administration and Audit Services," Subpart 242.75, "Contractor Accounting Systems and Related Controls," Section 242.7502(b), "Policy." To address this additional DFARS requirement, we verified that contracting officers either communicated with or reviewed reports completed by auditors and did not make the determination without this consultation.

⁵⁷ Report No. DODIG-2014-092. Report No. DODIG-2013-120.

DoD OIG recommended that contracting officials at NAVSEA–Washington Navy Yard and NAVSUP–San Diego include documentation in the acquisition plan or contract file to annotate contracting official analysis and data relied on for the assessment of the contractor’s accounting system. Contracting officials agreed with the recommendations, and updated contracting guidance to address the recommendations.

The DoD OIG also recommended that Defense Procurement and Acquisition Policy contracting officials identify best practices and codify the efforts contracting officials should take to assess the adequacy of a contractor’s accounting system.⁵⁸ As a result, Defense Procurement and Acquisition Policy contracting officials amended DFARS Procedures, Guidance, and Information 242.7502 to clarify DoD contracting officer responsibilities relating to contractor’s accounting systems when awarding cost-reimbursement type contracts.

Contracting officials at ACC–APG–Fort Huachuca, NAVSEA–Washington Navy Yard, and NAVSUP–San Diego implemented corrective actions based on previous recommendations and contracting officials at these offices consulted auditors or functional specialists to determine that the contractors accounting system was adequate before award.

Conclusion

Military Service contracting officials did not consistently comply with Federal and DoD regulations and guidance when awarding 45 of 83 cost-reimbursement contracts, valued at \$6.94 billion. Contracting officials increase contracting risks when awarding cost-reimbursement contracts without proper approvals, justifications, transition strategies, adequate Government resources, and adequate accounting systems. Specifically, contracting risks increase for the DoD because of the potential for cost escalation and because the DoD pays contractor costs, up to the amount obligated to the contract, regardless of whether the work is completed. Contracting officials must adequately address the five cost-reimbursement requirements we reviewed to determine whether incurring higher contract risks are necessary before entering into cost-reimbursement contracts or determine whether other contract types are more appropriate. Contracting officials will plan, issue, and oversee cost-reimbursement contracts more effectively by fully complying with Federal and DoD regulations. Additionally, DoD policymakers can increase compliance with FAR requirements for cost-reimbursement contracts by clarifying the applicability of the FAR for documenting approvals, justifications, and transition strategies in the acquisition plan or contract files. Military Service

⁵⁸ Report No. DODIG-2015-029.

contracting officials can better ensure and document in the acquisition plan or contract files that adequate Government resources are available to award and manage cost-reimbursement contracts by coordinating with DCMA before the award of cost-reimbursement contracts as part of acquisition planning.

Recommendations, Management Comments, and Our Response

Recommendation 1

We recommend that the Principal Director, Defense Pricing and Contracting issue a memorandum or other guidance to:

- a. Clarify whether any exemptions exist regarding the requirement for contracting officials to document in the contract file the approval for use of cost-reimbursement contracts regardless of the nature of the contract, or when an acquisition plan is not required.
- b. Reinforce the applicability of current regulations related to determining and documenting how future requirements can transition to firm-fixed-price contract. At a minimum, the memorandum should clarify whether any exemptions exist regarding the requirement for contracting officials to document in the acquisition plan or contract file the potential for cost-reimbursement contracts to transition to firm-fixed-price contracts to the maximum extent practicable. Additionally, the memorandum should clarify whether contracting officials are required to document in the acquisition plan or contract file the inability to transition to a firm-fixed-price contract.
- c. Issue a memorandum or other guidance to emphasize coordination between contracting officials and the Defense Contract Management Agency, as part of acquisition planning, for ensuring adequate Government resources are available to award and manage cost-reimbursement contracts before contract award.

Defense Pricing and Contracting Comments

The Principal Director, DPC agreed, stating that DPC will issue guidance to clarify the requirements for documentation of contract type approval and the interpretation of future requirements, and to highlight the importance of communication with DCMA during acquisition planning.

Our Response

Comments from the Principal Director addressed the specifics of the recommendations; therefore, the recommendations are resolved but open. We will close the recommendations once we verify that DPC issued the clarifying guidance.

Recommendation 2

We recommend that the Assistant Secretary of the Army (Acquisition, Logistics, and Technology) establish a process to formalize communication between contracting officials and the Defense Contract Management Agency throughout the contracting process to identify and document in the acquisition plan or contract file that adequate accounting systems are in place and adequate Government resources are available to award and manage cost-reimbursement contracts before contract award, in accordance with Federal and DoD regulations.

Deputy Assistant Secretary of the Army (Acquisition, Logistics, and Technology) Comments

The Deputy Assistant Secretary of the Army (Procurement), responding for the Assistant Secretary of the Army (Acquisition, Logistics, and Technology), agreed, stating that the Office of the Deputy Assistant Secretary of the Army (Procurement) is working with stakeholders to update the pre-negotiation objective memorandum and price negotiation memorandum checklist to provide best practices to Army contracting personnel. Best practices include providing a copy of contract terms and conditions to DCMA before contract negotiations and verifying that adequate accounting systems are in place and resources are available to award and manage cost-reimbursement contracts. The Deputy Assistant Secretary also stated that the Army will use several training venues to reinforce the checklist update. The Deputy Assistant Secretary expects to complete this action by December 2022.

Our Response

Comments from the Deputy Assistant Secretary addressed the specifics of the recommendation; therefore, the recommendation is resolved but open. We will close the recommendation once we verify the Office of the Deputy Assistant Secretary of the Army (Procurement) updated the pre-negotiation objective memorandum and price negotiation memorandum checklist to include the identified best practices and confirm the Army reinforced the checklist update through training.

Recommendation 3

We recommend that the Assistant Secretary of the Navy (Research, Development and Acquisition) establish a process to formalize communication between contracting officials and the Defense Contract Management Agency throughout the contracting process to identify and document in the acquisition plan or contract file that adequate accounting systems are in place and adequate Government resources are available to award and manage cost-reimbursement contracts before contract award, in accordance with Federal and DoD regulations.

Deputy Assistant Secretary of the Navy (Research, Development, and Acquisition) Comments

The Executive Director, Deputy Assistant Secretary of the Navy (Procurement), responding for the Assistant Secretary of the Navy (Research, Development, and Acquisition), partially agreed, stating that the suggested actions require coordination with and adherence to higher-level guidance from the DoD. The Executive Director stated that the Department of the Navy will determine what additional information related to adequate accounting systems and adequate Government resources is necessary to distribute to Navy contracting officials, in response to higher-level guidance from the DoD.

Our Response

Although the Executive Director partially agreed, the planned actions meet the intent of the recommendation. Therefore, the recommendation is resolved but open. In response to Recommendation 1.c., DPC plans to issue DoD-level guidance to emphasize coordination between contracting officials and DCMA during acquisition planning. We will close this recommendation once we verify that the Assistant Secretary of the Navy (Research, Development, and Acquisition) issued guidance that aligns with DPC guidance.

Recommendation 4

We recommend that the Deputy Assistant Secretary for Contracting, Office of the Assistant Secretary of the Air Force (Acquisition, Technology, and Logistics) establish a process to formalize communication between contracting officials and the Defense Contract Management Agency throughout the contracting process to identify and document in the acquisition plan or contract file that adequate accounting systems are in place and adequate Government resources are available to award and manage cost-reimbursement contracts before contract award, in accordance with Federal and DoD regulations.

Deputy Assistant Secretary of the Air Force (Acquisition, Technology, and Logistics) Comments

The Principal Deputy Assistant Secretary of the Air Force (Acquisition, Technology, and Logistics) agreed, stating that Air Force contracting officials are developing a tactics, techniques, and procedures document to emphasize the importance for contracting officials to use a determination and findings template. Contracting officers will be required to document contractor responsibility determinations to include coordination with DCMA and other government sources of information to inform the contracting officer's determination. In addition, the Principal Deputy Assistant Secretary stated that Air Force contracting officials will update the acquisition plan template instructions to include a mandatory field to address the contractor's accounting system and disseminate audit findings in a career-field wide email and on the Air Force contracting central website. The Principal Deputy Assistant Secretary expects to complete these actions by February 2023.

Our Response

Comments from the Principal Deputy Assistant Secretary addressed the specifics of the recommendation; therefore, the recommendation is resolved but open. We will close the recommendation once we verify Air Force contracting officials issued the tactics, techniques, and procedures document to emphasize coordination with DCMA, updated the acquisition plan template instructions to include a mandatory field to address the contractor's accounting system, and disseminated the audit findings to Air Force contracting officials through email and the Air Force contracting central website.

Recommendation 5

We recommend that the Director of Contracting, Army Contracting Command, Aberdeen Proving Ground–Fort Huachuca, develop, distribute, and implement procedures for contracting officials to obtain and document in the contract file:

- a. Proper approval for the use of cost-reimbursement contracts regardless of the nature of the contract, or when an acquisition plan is not required.**
- b. Justification for the use of cost-reimbursement contracts regardless of the nature of the contract, or when an acquisition plan is not required.**
- c. Potential for cost-reimbursement contracts to transition to firm-fixed-price contracts to the maximum extent practicable, regardless of the nature of the contract, or when an acquisition plan is not required.**

Army Contracting Command–Aberdeen Proving Ground–Fort Huachuca Comments

The Chief of Services and Weapons Systems Contracting, Office of the Deputy Assistant Secretary of the Army (Procurement), responding for the Director of Contracting, ACC–APG–Fort Huachuca, agreed, stating that ACC–APG–Fort Huachuca officials developed, distributed, and implemented procedures for cost-reimbursement contract requirements. Specifically, ACC–APG–Fort Huachuca officials issued an email requiring contracting officials to obtain and document approval for the use of cost-reimbursement contracts, justification for the use of cost-reimbursement contracts, and the potential for cost-reimbursement contracts to transition to firm-fixed-price contracts in the acquisition plan, strategy, or contract file in accordance with the FAR. In addition, the Chief of Services and Weapons Systems Contracting stated that ACC–APG–Fort Huachuca officials created a report to identify all cost-reimbursement contract awards and ACC–APG–Fort Huachuca officials will conduct spot checks to ensure compliance with the documentation requirements for the award of cost-reimbursement contracts.

Our Response

Comments from the Chief of Services and Weapons Systems Contracting addressed the specifics of the recommendations. We verified that ACC–APG–Fort Huachuca officials issued guidance through an email requiring contracting officials to obtain approval for use of cost-reimbursement contracts, justification for the use of cost-reimbursement contracts, and the potential for cost-reimbursement contracts to transition to firm-fixed-price contracts in the acquisition plan, strategy, or contract file in accordance with the FAR. In addition, ACC–APG–Fort Huachuca officials created a report to identify all cost-reimbursement contract awards and ACC–APG–Fort Huachuca officials will conduct spot checks to ensure compliance with the documentation requirements for the award of cost-reimbursement contracts. Therefore, the recommendations are closed and no further comments are required.

Recommendation 6

We recommend that the Chief of Contracting Operations, Army Contracting Command, Aberdeen Proving Ground, update procedures for awarding cost-reimbursement contracts through the Small Business Innovation Research program to require contracting officials, at a minimum, to:

- a. Obtain and document in the acquisition plan or contract file the proper approval for the use of cost-reimbursement contracts, in accordance with the Federal Acquisition Regulation.**

- b. **Document justification for the use of cost-reimbursement contracts, in accordance with the Federal Acquisition Regulation.**
- c. **Document the potential for cost-reimbursement contracts to transition to firm-fixed-price contracts to the maximum extent practicable, in accordance with the Federal Acquisition Regulation.**

Army Contracting Command–Aberdeen Proving Ground Comments

The Chief of Services and Weapons Systems Contracting, Office of the Deputy Assistant Secretary of the Army (Procurement), responding for the Director of Contracting, ACC–APG, agreed, stating that ACC–APG officials updated the SBIR SOP to include procedures for awarding cost-reimbursement contracts through the SBIR program. Specifically, ACC–APG officials updated the SBIR SOP to require contracting officials to obtain and document in the acquisition plan or contract file the proper approval for the use of cost-reimbursement contracts, the justification for the use of cost-reimbursement contracts, and the potential for cost-reimbursement contracts to transition to firm-fixed-price, in accordance with the FAR. In addition, ACC–APG officials emphasized the requirements for cost-reimbursement contracts through email and the April 29, 2022 ACC–APG contracting operations weekly update.

Our Response

Comments from the Chief of Services and Weapons Systems Contracting addressed the specifics of the recommendation. We verified that ACC–APG officials updated the SBIR SOP to require contracting officials to obtain and document in the acquisition plan or contract file the proper approval for the use of cost-reimbursement contracts, the justification for the use of cost-reimbursement contracts, and the potential for cost-reimbursement contracts to transition to firm-fixed-price, in accordance with the FAR. Therefore, the recommendations are closed and no further comments are required.

Recommendation 7

We recommend that the Assistant Commander of Contracts, Marine Corps System Command, develop and distribute guidance requiring contracting officials to obtain and document in the acquisition plan or contract file the potential for cost-reimbursement contracts to transition to firm-fixed-price contracts to the maximum extent practicable, including the nature of cost-reimbursement contracts and the inability to transition to a firm-fixed-price contract.

Marine Corps System Command Comments

The Executive Director, Deputy Assistant Secretary of the Navy (Procurement), responding for the Assistant Commander for Contracts, MCSC, partially agreed, stating that the Office of the Deputy Assistant Secretary of the Navy develops and distributes regulation and guidance for the Navy, to include MCSC contracting officials. The Executive Director stated that MCSC plans to communicate guidance requiring contracting officials to document the transition from cost-reimbursement contracts to firm-fixed-price contracts to the maximum extent practicable. In addition, the Director of Contracts, MCSC, will assign to all contracting leads the responsibility for disseminating information and training their teams on this subject. The Executive Director expects MCSC to complete this action by September 2022.

Our Response

Although the Executive Director partially agreed, the planned actions meet the intent of the recommendation. Therefore, the recommendation is resolved but open. We will close the recommendation once we verify MCSC issued guidance requiring contracting officials to document the transition from cost-reimbursement contracts to firm-fixed-price contracts to the maximum extent practicable and once we verify MCSC assigned the responsibility for disseminating information and training their teams on this subject to all MCSC contracting leads.

Appendix A

Scope and Methodology

We conducted this performance audit from February 2021 through June 2022 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.

Our audit objective was to determine whether Military Services awarded cost-reimbursement contracts in accordance with Federal and DoD regulations and guidance. Therefore, our audit universe consisted of cost-reimbursement contracts issued by the Army, Navy, Marine Corps, and Air Force from October 1, 2018, to September 30, 2020. We divided our objective into five cost-reimbursement contract requirements outlined in the FAR.⁵⁹

- Approval level
- Justification
- Transition strategy
- Adequate Government resources
- Adequate accounting system

We announced the audit in February 2021 as the “Audit of the DoD Components’ Award and Administration of Cost-Reimbursement Contracts.” The report addresses Army, Navy, Marine Corps, and Air Force contracting officials’ compliance with cost-reimbursement contract requirements.

Universe and Sample Size Selection

We used the Beta System for Award Management (BetaSAM) Data Bank to identify a universe of cost-reimbursement contracts issued by the DoD from October 1, 2018, to September 31, 2020. We limited the query to contracts valued above the simplified acquisition threshold of \$250,000, coded with a “Type of Contract Pricing Description” of ‘Cost No Fee,’ ‘Cost Plus Award Fee,’ ‘Cost Plus Fixed Fee,’ ‘Cost Plus Incentive Fee,’ or ‘Cost Sharing.’⁶⁰ We selected a combination of contracting offices that awarded the most cost-reimbursement contracts as well as contracting offices

⁵⁹ FAR Part 16, “Types of Contracts,” Subpart 16.3, “Cost-Reimbursement Contracts.”

⁶⁰ FAR Part 16, “Types of Contracts,” Subpart 16.3, “Cost-Reimbursement Contracts.”

that the DoD OIG previously audited and provided recommendations related to awarding and administering cost-reimbursement type contracts. Specifically, we selected the following contracting offices.

- Army
 - Army Contracting Command, Redstone Arsenal, Alabama
 - Army Contracting Command, Aberdeen Proving Ground, Adelphi, Maryland
 - Army Contracting Command, Aberdeen Proving Ground, Fort Huachuca, Arizona
- Navy
 - Naval Sea Systems Command, Washington Navy Yard, Washington, D.C.
 - Naval Air Systems Command, Lakehurst, New Jersey
 - Naval Supply Systems Command, San Diego, California
 - Marine Corps Systems Command, Quantico, Virginia
- Air Force
 - Air Force Materiel Command, Hill Air Force Base, Utah
 - Air Force Materiel Command, Wright-Patterson Air Force Base, Ohio
 - Air Force Materiel Command, Robins Air Force Base, Georgia

We identified 2,762 cost-reimbursement contracts valued at \$76.6 billion. We selected a nonstatistical sample of contracts from those awarded by the Military Service locations selected. Our review included 83 cost-reimbursement contracts valued at \$27.48 billion.

We did not review classified contracts. Unless otherwise noted, dollar values depicted in the report are base-award contract values and include the maximum dollar amount contracting officials could obligate under a contract with undefined ordering quantities.

Our nonstatistical sample was limited to specific contracts, and our results should not be projected across other contracts issued by the selected Components or other Military Service-issued contracts.

Review of Documentation and Interviews

We evaluated documentation against the following applicable criteria.

- Public Law 117-81, "The National Defense Authorization Act for Fiscal Year 2022" Section 817, "Repeal of Preference for Fixed-Price Contracts," December 27, 2021

- Public Law 114-328, "The National Defense Authorization Act of 2017," Section 829, "Preference for Fixed-Price Contracts," December 23, 2016
- OUSD(A&S) Class Deviation 2019-00001, "Use of Fixed-Price Contracts," November 27, 2018
- FAR 1.602-2, "Responsibilities"
- FAR 1.604, "Contracting Officer's Representative"
- FAR 7.103, "Agency-Head Responsibilities"
- FAR 7.104, "General Procedures"
- FAR 7.105, "Contents of Written Acquisition Plans"
- FAR 16.103, "Negotiating Contract Type"
- FAR 16.104, "Factors in Selecting Contract Types"
- FAR 16.301-2, "Application"
- FAR 16.301-3, "Limitations"
- FAR 42.302, "Contract Administration Functions"
- DFARS 207.1, "Acquisition Plans"
- DFARS 216.3, "Cost-Reimbursement Contracts"
- DFARS 216.4, "Incentive Contracts"
- DFARS 235.006, "Contracting Methods and Contract Type"
- DFARS 242.2, "Contract Administration Services"
- DFARS 242.3, "Contract Administration Office Functions"
- DFARS 242.72, "Contractor Material Management and Accounting System"
- DFARS 242.75, "Contractor Accounting Systems and Related Controls"
- DoD Instruction 5000.72, "DoD Standard for Contracting Officer's Representative (COR) Certification," March 26, 2015, Incorporating Change 1, August 31, 2018

We interviewed contracting officials from OUSD(A&S), DCMA, and the selected Military Service locations. To obtain procedures and documentation related to the audit objective, we interviewed contracting officials to discuss procedures completed when they awarded cost-reimbursement contracts. We obtained copies of contract documentation issued by Military Service contracting officials, including:

- base contracts;
- acquisition plans;
- justification and approvals for contract type;
- determination and findings for contract type;

- pre- and post-negotiation business clearance memorandums;
- COR designation and acceptance letters;
- COR training certificates;
- contract administration delegation letters;
- price negotiation memorandums;
- DCMA accounting system adequacy memorandums; and
- Defense Contract Audit Agency accounting system audit reports.

Internal Control Assessment and Compliance

We assessed internal controls and compliance with laws and regulations necessary to satisfy the audit objective. In particular, we assessed the control environment, risk assessment, control activities, monitoring, and information, and communication significant to determining whether the Military Services awarded cost-reimbursement contracts in accordance with Federal and DoD regulations. However, because our review was limited to these internal control components and various underlying principles, it may not have disclosed all internal control deficiencies that may have existed at the time of this audit.

Use of Computer-Processed Data

We did not use computer-processed data to perform this audit.

Use of Technical Assistance

We worked with officials from the DoD OIG's Quantitative Methods Division during our planning phase to determine the number of contracts to review at each selected site.

Prior Coverage

No prior coverage has been conducted on compliance with cost-reimbursement contract requirements during the last 5 years. However, from March 2013 to November 2014, the DoD OIG issued a series of five reports discussing the award of cost-reimbursement contracts that are subject to approval, justification, transition strategy, adequate Government resources, and adequate accounting system requirements outlined in the FAR.

Unrestricted DoD OIG reports can be accessed at <http://www.dodig.mil/reports.html/>.

DoD OIG

DODIG-2015-029, "DoD Needs to Improve Processes for Issuing and Managing Cost-Reimbursement Contracts," November 7, 2014

The DoD OIG summarized the findings of the prior four audits of the Military Services', Missile Defense Agency's, and the Defense Microelectronics Activity's compliance with interim cost-reimbursement contract requirements. The DoD OIG determined that DoD contracting officials complied with interim cost-reimbursement contract requirements for 193 of 604 contracts, valued at \$51 billion. However, contracting officials did not comply with interim cost-reimbursement contract requirements for the remaining 411 contracts, valued at \$31.7 billion. The DoD OIG recommendations relate to systemic problems across the DoD and not to a specific Military Service. Specifically, the DoD OIG recommended that Defense Procurement and Acquisition Policy contracting officials issue memorandums or other guidance to reinforce or clarify when cost-reimbursement contracts should be approved one level above the contracting officer; reinforce the requirement to consider how a cost-reimbursement contract could transition to a firm-fixed-price contract in the future; identify best practices and codify the efforts contracting officials should take to assess the adequacy of each contractor accounting system; clarify whether FAR revisions are applicable to task and delivery orders issued on previously issued basic contracts; discuss whether broader contracting policies are sufficient support to meet the increased criteria before issuing a cost-reimbursement contract; and clarify to what extent initial decisions for a basic contract can be relied on for analysis of the subsequent orders and options pertaining to the contract. The DoD OIG recommendations in this report are closed.

DODIG-2014-092, "Navy and Marine Corps Have Weak Procurement Processes for Cost-Reimbursement Contract Issuance and Management," July 11, 2014

The DoD OIG determined that Navy and Marine Corps contracting officials complied with interim cost-reimbursement contract requirements for 36 of 170 contracts, valued at \$151 million. However, contracting officials did not comply with interim cost-reimbursement contract requirements for the remaining 134 contracts, valued at \$7.5 billion. The DoD OIG recommended that Navy and Marine Corps contracting officials emphasize the importance of the FAR revisions to contracting personnel for the use of cost-reimbursement contracts; include a statement on COR acceptance forms requiring the COR to acknowledge and sign the COR designation; include documentation in the contract files discussing an assessment of the contractor's accounting

system; develop controls to ensure that a COR is assigned to each contract at award; and establish better communication to more effectively transition to firm-fixed contracts when possible. The DoD OIG recommendations in this report are closed.

DODIG-2014-011, "Missile Defense Agency and Defense Microelectronics Activity Use of Cost-Reimbursement Contracts," November 22, 2013

The DoD OIG determined that Missile Defense Agency and Defense Microelectronics Activity contracting officials complied with interim cost-reimbursement contract requirements for 16 of 88 contracts, valued at \$1.14 billion. However, contracting officials did not comply with interim cost-reimbursement contract requirements for the remaining 72 contracts, valued at \$528 million. Specifically, the DoD OIG recommended that Missile Defense Agency and Defense Microelectronics Activity contracting officials emphasize the importance of the FAR revisions to contracting personnel for the use of cost-reimbursement contracts; provide guidance to ensure that all cost-reimbursement contracts are approved at least one level above the contracting officer; emphasize the importance of the FAR revisions through guidance to contracting personnel for the use of cost-reimbursement contracts; and provide guidance to contracting officials about the documentation of a transition strategy for cost-reimbursement contracts to transition to a firm-fixed-price contract. The DoD OIG recommendations in this report are closed.

DODIG-2013-120, "Army Needs Better Processes to Justify and Manage Cost-Reimbursement Contracts," August 23, 2013

The DoD OIG determined that Army contracting officials complied with interim cost-reimbursement contract requirements for 54 of 161 contracts, valued at \$42.8 billion. However, contracting officials did not comply with interim cost-reimbursement contract requirements for the remaining 107 contracts, valued at \$10.5 billion. Specifically, the DoD OIG recommended that Army contracting officials emphasize the importance of the FAR revisions to contracting personnel for the use of cost-reimbursement contracts; update internal guidance to eliminate the dollar threshold for cost-reimbursement contracts to align with the interim rule; promote the issuance of hybrid contracts that contain multiple line items for the same service or item with different price structures so contract type can be selected on each task or delivery order; and establish better communication to more effectively transition cost-reimbursement contracts to firm-fixed-price contracts. The DoD OIG recommendations in this report are closed.

DODIG-2013-059, "Air Force Needs Better Processes to Appropriately Justify and Manage Cost-Reimbursable Contracts," March 21, 2013

The DoD OIG determined that Air Force contracting officials complied with interim cost-reimbursement contract requirements for 81 of 156 contracts, valued at \$1.7 billion. However, contracting officials did not comply with interim cost-reimbursement contract requirements for the remaining 75 contracts, valued at \$8.8 billion. Specifically, the DoD OIG recommended that Air Force contracting officials emphasize the importance of the FAR revisions to contracting personnel for the use of cost-reimbursement contracts; promote the issuance of hybrid contracts that contain multiple line items for the same service or item with different price structures so contract type can be selected on each task or delivery order; establish better communication to more effectively transition cost-reimbursement contracts to firm-fixed-price contracts; require contracting officials to document instances where they maintained COR functions; and provide guidance to ensure that all cost-reimbursement contracts are approved at least one level above the contracting officer. The DoD OIG recommendations in this report are closed.

Appendix B

Military Service Compliance with Cost-Reimbursement Contract Requirements

	Contract Number	Date Awarded	Total Contract Value ¹	Approval		Justification		Transition Strategy		Government Resources		Accounting System	
ACC Redstone Arsenal, Alabama													
1	W58RGZ-19-C-0027	April 19, 2019	\$2,065,002,615	Yes		Yes		Yes		Yes		Yes	
2	W58RGZ-19-C-0003	February 1, 2019	517,375,800	Yes		Yes		Yes		Yes		Yes	
3	W31P4Q-19-C-0071	July 31, 2019	328,517,488	Yes		Yes		Yes		No		Yes	
4	W58RGZ-19-C-0033	May 10, 2019	162,298,331	Yes		Yes		Yes		Yes		Yes	
5	W31P4Q-19-C-0038	December 11, 2018	155,251,025	Yes		Yes		No		Yes		Yes	
6	W31P4Q-20-C-0016	January 9, 2020	7,741,646	Yes		Yes		No		No		Yes	
7	W31P4Q-19-C-0002	November 8, 2018	986,712	Yes		Yes		No		Yes		Yes	
	ACC—Redstone Arsenal Subtotal:		\$3,237,173,617	Yes - 7	No - 0	Yes - 7	No - 0	Yes - 4	No - 3	Yes - 5	No - 2	Yes - 7	No - 0
ACC APG Adelphi, Maryland													
8	W911QX-19-C-0039	September 27, 2019	484,670,656	Yes		Yes		Yes		Yes		Yes	
9	W911QX-20-C-0019	February 10, 2020	84,465,690	Yes		Yes		Yes		Yes		Yes	
10	W911QX-20-C-0023	April 23, 2020	83,099,372	Yes		Yes		Yes		Yes		Yes	
11	W911QX-20-C-0037	May 21, 2020	49,783,140	Yes		Yes		Yes		Yes		Yes	
12	W911QX-20-C-0028	April 2, 2020	20,661,759	Yes		Yes		Yes		Yes		Yes	
13	W911QX-20-C-0040	August 24, 2020	17,086,539	Yes		Yes		Yes		Yes		Yes	
14	W911QX-20-C-0033	June 5, 2020	998,263	Yes		Yes		Yes		Yes		Yes	
	ACC—APG—Adelphi Subtotal:		\$740,765,420	Yes - 7	No - 0	Yes - 7	No - 0	Yes - 7	No - 0	Yes - 7	No - 0	Yes - 7	No - 0
ACC APG Fort Huachuca, Arizona													
15	W91RUS-19-C-0014	June 3, 2019	20,180,210	Yes		Yes		Yes		Yes		Yes	

Military Service Compliance with Cost-Reimbursement Contract Requirements (cont'd)

	Contract Number	Date Awarded	Total Contract Value ¹	Approval		Justification		Transition Strategy		Government Resources		Accounting System	
16	W9128Z-20-C-0002	September 29, 2020	3,751,732	Yes		Yes		No		Yes		Yes	
17	W91RUS-19-C-0024	July 18, 2019	2,840,997	No		Yes		No		Yes		Yes	
18	W91RUS-20-C-0016	April 17, 2020	2,722,784	No		No		No		Yes		Yes	
19	W9128Z-19-C-0004	July 17, 2019	2,452,384	Yes		Yes		No		Yes		Yes	
20	W91RUS-20-C-0028	September 17, 2020	1,099,999	No		No		No		Yes		Yes	
ACC–APG–Ft. Huachuca Subtotal:			\$33,048,107	Yes - 3	No - 3	Yes - 4	No - 2	Yes - 1	No - 5	Yes - 6	No - 0	Yes - 6	No - 0
Army Subtotal:			\$4,010,987,144	Yes - 17	No - 3	Yes - 18	No - 2	Yes - 12	No - 8	Yes - 18	No - 2	Yes - 20	No - 0
Naval Sea Systems Command–Washington Navy Yard, Washington, D.C.													
21	N00024-20-C-6117	August 25, 2020	2,220,351,277	Yes		Yes		No		Yes		Yes	
22	N00024-19-C-2125	July 11, 2019	1,043,513,079	Yes		Yes		No		Yes		Yes	
23	N00024-19-C-2115	November 30, 2018	889,949,558	Yes		Yes		Yes		Yes		Yes	
24	N00024-20-C-5601	March 16, 2020	789,584,127	Yes		Yes		No		Yes		Yes	
25	N00024-19-C-4452	January 30, 2019	719,178,833	Yes		Yes		No		Yes		Yes	
26	N00024-19-C-5603	August 15, 2019	637,583,110	Yes		Yes		No		Yes		Yes	
27	N00024-19-C-2114	November 30, 2018	634,011,726	Yes		Yes		Yes		Yes		Yes	
28	N00024-19-C-4313	April 26, 2019	557,673,780	Yes		Yes		No		No		Yes	
29	N00024-20-C-5213	November 15, 2019	50,711,886	Yes		Yes		No		Yes		Yes	
30	N00024-19-C-2122	October 31, 2018	20,375,709	Yes		Yes		No		Yes		Yes	
NAVSEA–Washington Navy Yard Subtotal:			\$7,562,933,085	Yes - 10	No - 0	Yes - 10	No - 0	Yes - 2	No - 8	Yes - 9	No - 1	Yes - 10	No - 0
Naval Air Systems Command–Lakehurst, New Jersey													
31	N68335-19-C-0622	September 16, 2019	48,229,685	Yes		Yes		No		Yes		Yes	
32	N68335-20-C-0843	September 16, 2020	41,437,959	Yes		Yes		No		Yes		Yes	

Military Service Compliance with Cost-Reimbursement Contract Requirements (cont'd)

	Contract Number	Date Awarded	Total Contract Value ¹	Approval		Justification		Transition Strategy		Government Resources		Accounting System	
				Yes	No	Yes	No	Yes	No	Yes	No	Yes	No
33	N68335-19-C-0543	September 18, 2019	30,880,590	Yes		Yes		No		Yes		Yes	
34	N68335-19-C-0107	December 13, 2018	18,504,625	Yes		Yes		No		Yes		Yes	
35	N68335-19-C-0248	September 23, 2019	17,202,359	Yes		Yes		No		Yes		Yes	
36	N68335-19-C-0818	September 16, 2019	9,383,997	Yes		Yes		No		Yes		Yes	
37	N68335-19-C-0718	August 27, 2019	7,173,806	Yes		Yes		No		Yes		Yes	
38	N68335-19-C-0816	September 19, 2019	6,998,585	Yes		Yes		No		Yes		Yes	
39	N68335-19-C-0082	October 29, 2018	6,601,454	Yes		Yes		No		Yes		Yes	
40	N68335-20-C-0580	June 16, 2020	1,998,536	Yes		Yes		No		Yes		Yes	
41	N68335-20-C-0448	June 25, 2020	1,104,160	Yes		Yes		No		Yes		Yes	
42	N68335-19-C-0124	March 21, 2019	1,055,086	Yes		Yes		No		Yes		Yes	
NAVAIR–Lakehurst Subtotal:			\$190,570,842	Yes - 12	No - 0	Yes - 12	No - 0	Yes - 0	No - 12	Yes - 12	No - 0	Yes - 12	No - 0
Naval Supply Systems Command–San Diego, California													
43	N00244-19-C-0008	September 30, 2019	44,624,743	Yes		Yes		No		Yes		Yes	
44	N00244-20-C-0003	November 8, 2019	4,798,289	Yes		Yes		Yes		Yes		Yes	
45	N00244-20-C-0008	May 12, 2020	4,625,775	Yes		Yes		Yes		Yes		Yes	
46	N00244-20-C-0017	September 29, 2020	2,811,514	Yes		Yes		No		No		Yes	
NAVSUP–San Diego Subtotal:			\$56,860,321	Yes - 4	No - 0	Yes - 4	No - 0	Yes - 2	No - 2	Yes - 3	No - 1	Yes - 4	No - 0
Marine Corps Systems Command–Quantico, Virginia													
47	M67854-20-C-0077	July 13, 2020	11,300,000	Yes		Yes		No		Yes		Yes	
48	M67854-19-C-2017	March 15, 2019	3,939,198	Yes		Yes		Yes		Yes		Yes	
49	M67854-19-C-2062	June 27, 2019	3,221,228	Yes		Yes		Yes		Yes		Yes	
50	M67854-19-C-6701	September 27, 2019	2,990,404	No		Yes		No		Yes		Yes	
51	M67854-20-C-6702	July 23, 2020	2,961,330	No		Yes		No		Yes		Yes	

Military Service Compliance with Cost-Reimbursement Contract Requirements (cont'd)

	Contract Number	Date Awarded	Total Contract Value ¹	Approval		Justification		Transition Strategy		Government Resources		Accounting System	
52	M67854-19-C-6700	June 10, 2019	2,926,983	No		Yes		No		Yes		Yes	
53	M67854-19-C-6702	June 27, 2019	2,862,466	No		Yes		No		Yes		Yes	
54	M67854-20-C-6704	July 16, 2020	2,808,405	No		Yes		No		Yes		Yes	
55	M67854-19-C-6500	August 8, 2019	793,751	No		Yes		Yes		Yes		Yes	
56	M67854-19-C-6511	September 24, 2019	571,165	No		Yes		No		Yes		Yes	
	MCSC–Quantico Subtotal:		\$34,374,930	Yes - 3	No - 7	Yes - 10	No - 0	Yes - 3	No - 7	Yes - 10	No - 0	Yes - 10	No - 0
	Navy and Marine Corps Subtotal:		\$7,844,739,178	Yes - 29	No - 7	Yes - 36	No - 0	Yes - 7	No - 29	Yes - 34	No - 2	Yes - 36	No - 0
Hill Air Force Base, Utah													
57	FA8219-20-C-0006	September 8, 2020	13,293,562,839	Yes		Yes		Yes		Yes		Yes	
58	FA8615-19-C-6051 ²	July 31, 2019	315,604,174	Yes		Yes		Yes		Yes		Yes	
59	FA8219-20-C-0001	October 22, 2019	137,251,894	Yes		Yes		Yes		Yes		Yes	
60	FA8204-19-C-0005	June 18, 2019	31,322,624	Yes		Yes		Yes		Yes		Yes	
61	FA8204-20-C-0001	November 1, 2019	9,069,082	Yes		Yes		No		No		Yes	
62	FA8222-20-C-0011	September 28, 2020	3,484,287	Yes		Yes		No		Yes		Yes	
63	FA8213-19-C-0033	September 12, 2019	279,935	Yes		Yes		No		No		No ³	
	Hill AFB Subtotal:		\$13,790,574,835	Yes - 7	No - 0	Yes - 7	No - 0	Yes - 4	No - 3	Yes - 5	No - 2	Yes - 6	No - 1
Wright-Patterson Air Force Base, Ohio													
64	FA8630-19-C-5004	January 30, 2019	691,736,847	Yes		Yes		Yes		Yes		Yes	
65	FA8620-19-C-2003	June 17, 2019	177,364,402	Yes		Yes		Yes		Yes		Yes	
66	FA8650-19-C-1941	July 2, 2019	66,752,500	Yes		Yes		Yes		Yes		Yes	
67	FA8650-20-C-5690	September 30, 2020	60,136,587	Yes		Yes		Yes		Yes		Yes	
68	FA8650-19-C-6024	May 1, 2019	58,296,527	Yes		Yes		Yes		Yes		Yes	
69	FA8620-19-C-4018	May 30, 2019	54,302,024	Yes		Yes		No		Yes		Yes	

Military Service Compliance with Cost-Reimbursement Contract Requirements (cont'd)

	Contract Number	Date Awarded	Total Contract Value ¹	Approval		Justification		Transition Strategy		Government Resources		Accounting System	
70	FA8620-19-C-2008	November 1, 2018	49,903,354	Yes		Yes		Yes		Yes		Yes	
71	FA8650-19-C-9203	March 25, 2019	48,990,806	Yes		Yes		Yes		Yes		Yes	
72	FA8650-19-C-1692	November 6, 2018	44,756,325	Yes		Yes		Yes		Yes		Yes	
73	FA8620-20-C-2009	December 20, 2019	43,650,761	Yes		Yes		Yes		Yes		Yes	
74	FA8650-20-C-9313	December 6, 2019	36,854,198	Yes		Yes		Yes		Yes		Yes	
75	FA8650-19-C-1674	February 19, 2019	2,999,982	Yes		Yes		Yes		Yes		Yes	
76	FA8650-19-C-1679	December 18, 2018	1,329,068	Yes		Yes		Yes		Yes		Yes	
77	FA8650-19-C-1002	January 25, 2019	732,757	Yes		Yes		Yes		Yes		Yes	
	Wright-Patterson AFB Subtotal:		\$1,337,806,138	Yes - 14	No - 0	Yes - 14	No - 0	Yes - 13	No - 1	Yes - 14	No - 0	Yes - 14	No - 0
Robins Air Force Base, Georgia													
78	FA8505-20-C-0001	June 12, 2020	202,600,272	Yes		Yes		Yes		Yes		Yes	
79	FA8576-20-C-0001	April 21, 2020	99,146,127	Yes		Yes		Yes		Yes		Yes	
80	FA8522-19-C-0003	May 14, 2019	71,761,512	Yes		Yes		Yes		Yes		Yes	
81	FA8528-19-C-0002	December 21, 2018	61,819,645	Yes		Yes		Yes		No		Yes	
82	FA8577-20-C-0001	December 20, 2019	59,663,916	Yes		Yes		Yes		Yes		Yes	
83	FA8571-19-C-A015	July 22, 2019	1,499,966	No		No		No		No		Yes	
	Robins AFB Subtotal:		\$496,491,439	Yes - 5	No - 1	Yes - 5	No - 1	Yes - 5	No - 1	Yes - 4	No - 2	Yes - 6	No - 0
	Air Force Subtotal:		\$15,624,872,412	Yes - 26	No - 1	Yes - 26	No - 1	Yes - 22	No - 5	Yes - 23	No - 4	Yes - 26	No - 1
	Military Services Total:		\$27,480,598,735	Yes - 72	No - 11	Yes - 80	No - 3	Yes - 41	No - 42	Yes - 75	No - 8	Yes - 82	No - 1

¹ The total contract values represent base plus option years and are based on a report pulled from the BetaSAM Data Bank in January 2021.

² Wright-Patterson AFB awarded contract FA8615-19-C-6051; however, the contract was transferred to Hill AFB.

³ The contracting official complied with the FAR requirement related to determining the adequacy of the contractor’s accounting system. However, they did not include information in the acquisition plan or contract file to show that they consulted auditors or specialists in this decision as required by DFARS.

Source: The DoD OIG.

Management Comments

Defense Pricing and Contracting



ACQUISITION
AND SUSTAINMENT

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

MEMORANDUM FOR PROGRAM DIRECTOR, ACQUISITION, CONTRACTING, AND
SUSTAINMENT, OFFICE OF THE INSPECTOR GENERAL

SUBJECT: Response to Department of Defense Inspector General's Draft Report on Audit of
the Military Services' Award of Cost-Reimbursement Contracts (Project No. D2021-
D000AV-0082.000)

As requested, I am providing responses to Recommendations 1a, 1b, and 1c in the subject
report. The report recommends the Principal Director, Defense Pricing and Contracting (DPC)
issue a memorandum or other guidance to:

Recommendation 1a: Clarify whether any exemptions exist regarding the requirement for
contracting officials to document in the contract file the approval for use of cost-reimbursement
contracts regardless of the nature of the contract, or when an acquisition plan is not required.

Response: Concur. DPC will issue guidance clarifying the requirements for documentation of
contract type approval.

Recommendation 1b: Reinforce the applicability of current regulations related to determining
and documenting how future requirements can transition to a firm-fixed-price contract. At
minimum, the memorandum should clarify whether any exemptions exist regarding the
requirement for contracting officials to document in the acquisition plan or contract file the
potential for cost-reimbursement contracts to transition to firm-fixed-price contracts to the
maximum extent practicable. Additionally, the memorandum should clarify whether contracting
officials are required to document in the acquisition plan or contract file the inability to transition
to a firm-fixed-price contract.

Response: Concur. DPC will issue guidance clarifying the interpretation of future
requirements.

Recommendation 1c: Issue a memorandum or other guidance to emphasize coordination
between contracting officials and Defense Contract Management Agency (DCMA), as part of
acquisition planning, to ensure adequate Government resources are available to award and
manage cost-reimbursement contracts before contract award.

Response: Concur. DPC will issue guidance to highlight the importance of communication
with DCMA during acquisition planning.

My point of contact for this response is [REDACTED], who can be reached at
[REDACTED].

TENAGLIA,
JOHN.M. [REDACTED]

John M. Tenaglia
Principal Director,
Defense Pricing and Contracting

Deputy Assistant Secretary of the Army (Procurement)



DEPARTMENT OF THE ARMY
OFFICE OF THE ASSISTANT SECRETARY OF THE ARMY
ACQUISITION LOGISTICS AND TECHNOLOGY
103 ARMY PENTAGON
WASHINGTON DC 20310-0103

SAAL-ZP

MEMORANDUM FOR INSPECTOR GENERAL, DEPARTMENT OF DEFENSE, 4800
MARK CENTER DRIVE, ALEXANDRIA, VA 22350-1500

SUBJECT: DODIG Draft Report: Audit of the Military Services' Award of Cost-
Reimbursement Contracts (Project No. D2021-D000AV-0082.000)

1. In accordance with Army Regulation 36-2, Audit Services in the Department of the
Army, Section II, paragraph 1-9 (f), I am providing the Official Army Position (OAP) for
Recommendation 2. I concur with the attached response to Recommendation 2.

2. The point of contact for this action is [REDACTED], or
[REDACTED]

Encl

DAKE.MEGAN. [REDACTED]
R. [REDACTED]
MEGAN R. DAKE
Deputy Assistant Secretary of
Army (Procurement)

Deputy Assistant Secretary of the Army (Procurement) (cont'd)

- 2 -

Office of the Deputy Assistant Secretary of the Army (Procurement)
Draft Report: Audit of the Military Services' Award of Cost-Reimbursement
Contracts (Project No. D2021-D000AV-0082.000)

Recommendation 2: We recommend that the Assistant Secretary of the Army for Acquisition, Logistics and Technology establish a process to formalize communication between contracting officials and the Defense Contract Management Agency throughout the contracting process to identify and document in the acquisition plan or contract file that adequate accounting systems are in place and adequate Government resources are available to award and manage cost-reimbursement contracts before contract award, in accordance with Federal and DoD regulations.

Response: The Army concurs with this recommendation. The Office of the Deputy Assistant Secretary of the Army (Procurement) Pricing lead is working with applicable stakeholders to update the Pre-negotiation Objective Memorandum (PNOM) /Price Negotiation Memorandum (PNM) checklist to provide best practices to the Army Contracting Enterprise. These best practices include, but are not limited to, providing a copy of the contract terms and conditions to DCMA before contract negotiations. This would allow the Army to consider DCMA specific concerns. Also, to verify adequate accounting systems are in place and adequate Government resources are available to award and manage cost-reimbursement contracts. The Army will utilize several training venues to reinforce this change such as the quarterly Hot Topics Training Workshops, Workforce Weekly, Policy Chief Meeting, etc.

Completion Date: NLT 30 December 2022

Deputy Assistant Secretary of the Navy (Procurement)



DEPARTMENT OF THE NAVY
OFFICE OF THE ASSISTANT SECRETARY
RESEARCH, DEVELOPMENT AND ACQUISITION
1000 NAVY PENTAGON
WASHINGTON DC 20350-1000

From: Executive Director, Deputy Assistant Secretary of the Navy (Procurement)
To: U.S. Department of Defense Inspector General

Subj: DEPARTMENT OF THE NAVY RESPONSE TO THE DRAFT REPORT
AUDIT OF THE MILITARY SERVICES' AWARD OF COST-REIMBURSEMENT
CONTRACTS (PROJECT NO. D2021-D000AV-0082.000)

Ref: (a) [REDACTED] email, same subject, dated 7 June 2022 with attachment

1. The Department of the Navy (DON) appreciates the opportunity to review the draft report, Audit of the Military Services' Award of Cost-Reimbursement Contracts, dated 7 June 2022 (Project No. D2021-D000AV-0082.000), provided by Reference (a). The DON's responses to recommendations 3 and 7 are provided below, as required by Reference (a).

Recommendation 3: We recommend that the Assistant Secretary of the Navy for Research, Development and Acquisition establish a process to formalize communication between contracting officials and the Defense Contract Management Agency throughout the contracting process to identify and document in the acquisition plan or contract file that adequate accounting systems are in place and adequate Government resources are available to award and manage cost-reimbursement contracts before contract award, in accordance with Federal and DoD regulations.

DON RESPONSE: The DON partially agrees with the recommendation, as the suggested actions require coordination with and adherence to higher-level guidance from the DoD. Given that each of the three military departments are receiving this identical recommendation, the scope for establishing a process to formalize communication between contracting officials and the Defense Contract Management Agency would be better placed with the DoD. Should the DoD issue supplementing or implementing regulation or guidance to address what is a DoD-wide recommendation, the DON can determine what additional information, if any, needs to be provided relative to identifying and documenting that adequate accounting systems are in place and adequate Government resources are available to award and manage cost-reimbursement contracts before contract award. Consistent with any resultant Defense Federal Acquisition Regulation Supplement (DFARS) changes, the Deputy Assistant Secretary of the Navy (Procurement) (DASN(P)) Policy will distribute the changes to the contracting workforce. If any DON unique information needs to be disseminated to the contracting workforce, DASN(P) Policy may utilize the "Policy Push" which is DASN(P)'s communication method to ensure near real-time availability of changes to policies, processes, procedures, and guidance affecting the DON contracting community.

Recommendation 7: We recommend that the Assistant Commander for Contracts, Marine Corps System Command, develop and distribute guidance requiring contracting officials to obtain and document in the acquisition plan or contract file the potential for cost-reimbursement contracts to transition to firm-fixed-price contracts to the maximum extent

Deputy Assistant Secretary of the Navy (Procurement) (cont'd)

Subj: DEPARTMENT OF THE NAVY RESPONSE TO THE DRAFT REPORT
AUDIT OF THE MILITARY SERVICES' AWARD OF COST-REIMBURSEMENT
CONTRACTS (PROJECT NO. D2021-D000AV-0082.000)

practicable, including the nature of cost-reimbursement contracts and the inability to transition to a firm-fixed-price contract.

DON RESPONSE: The DON partially agrees with the recommendation, as the required action should be assigned to DASN(P) vice Marine Corps Systems Command. This response was coordinated with the Marine Corps System Command.

The DON DASN(P) Policy develops and distributes regulation and guidance for the Navy Field Contracting System (NFCS), to include Marine Corps Systems Command contracting officials. Most notably, the Navy Marine Corps Acquisition Regulation Supplement (NMCARS) is the formal means of communication that the DON DASN(P) uses to interface with the NFCS. The NMCARS establishes uniform DON policies and procedures implementing and supplementing the Federal Acquisition Regulation (FAR) and the DFARS and includes guidance and templates reinforcing compliance with FAR 16.103(d)(1)(iv)(D). Pursuant to FAR 16.103(d)(1)(iv)(D), contract file documentation must include a discussion of the actions planned to minimize the use of other than firm-fixed-price contracts on future acquisitions for the same requirement and to transition to firm-fixed-price contracts to the maximum extent practicable. As it stands, all existing standardized DON acquisition plan templates require contracting officers to discuss the rationale for the selection of contract type and the opportunity to transition from cost-reimbursement contracts to fixed-price contracts.

The DON intends to issue a new NMCARS edition in Fiscal Year 2023 and plans to review all standardized DON templates prior to that issuance. Should additional information be required in the templates to highlight regulatory compliance with FAR 16.103(d)(1)(iv)(D), the DON will update the templates accordingly to further address the potential for transitioning cost-reimbursement contracts to firm-fixed-price contracts. Furthermore, DASN(P) Policy will distribute NMCARS changes via e-mail to the contracting workforce and will post changes under the "DASN(P)" tab within the SECNAV site.

Additionally, since this recommendation relates to specific contract actions executed by MARCORSYSCOM, the DASN(P) supports supplemental efforts MARCORSYSCOM plans to initiate to address this recommendation. Specifically, MARCORSYSCOM intends to communicate guidance to document the transition from cost-reimbursable contracts to firm-fixed-price contracts to the maximum extent practicable in accordance with acquisition regulations to include an immediate e-mail distributed to the contracting workforce reinforcing the requirements in FAR 16.103(d)(1)(iv)(D). Additionally, the Director of Contracts will assign to all contracting leads the responsibility for disseminating information and training their teams on this subject. The estimated completion date of MARCORSYSCOM's actions is September 2022.

2. If you have any questions on the above, my point of contact for this engagement is [REDACTED] or [REDACTED]

Deputy Assistant Secretary of the Navy (Procurement) (cont'd)

Subj: DEPARTMENT OF THE NAVY RESPONSE TO THE DRAFT REPORT
AUDIT OF THE MILITARY SERVICES' AWARD OF COST-REIMBURSEMENT
CONTRACTS (PROJECT NO. D2021-D000AV-0082.000)

NICKLE,STEVE [REDACTED]
N.A. [REDACTED]
Steven A. Nickle
Executive Director
Deputy Assistant Secretary of the Navy
(Procurement)

Deputy Assistant Secretary of the Air Force (Acquisition, Technology, and Logistics)



DEPARTMENT OF THE AIR FORCE
WASHINGTON, DC

OFFICE OF THE ASSISTANT SECRETARY

MEMORANDUM FOR DEPARTMENT OF DEFENSE INSPECTOR GENERAL

FROM: SAF/AQ
1120 Air Force Pentagon Suite
Washington, DC 20330

SUBJECT: Air Force Response to DoD Office of Inspector General Draft Report, Audit of the Military Services' Award of Cost-Reimbursement Contracts (Project No. D2021-D000AV-0082.000)

1. This is the Department of the Air Force response to the DoDIG Draft Report, Audit of the Military Services' Award of Cost-Reimbursement Contracts (Project No. D2021-D000AV-0082.000). SAF/AQ concurs with comments to the draft report as written.
2. SAF/AQ, in coordination with SAF/AQC, will correct issues identified in this report, and develop and implement a corrective action plan outlined in the following recommendation:

RECOMMENDATION: The DODIG draft audit "recommends that SAF/AQC establish a process to formalize communication between contracting officials and the Defense Contract Management Agency throughout the contracting process to identify and document in the acquisition plan or contract file that adequate accounting systems are in place and adequate Government resources are available to award and manage cost-reimbursement contracts before contract award, in accordance with Federal and DoD regulations."

AIR FORCE RESPONSE: Concur, with comment. The requirement to determine responsibility in Federal Acquisition Regulation (FAR) 9.104 and Defense Federal Acquisition Regulation Supplement (DFARS) 5209.104 is supported by a detailed Determination & Findings (D&F) template in (Air Force Federal Acquisition Regulation Supplement) AFFARS 5309.104-1. Para 5 of the D&F template explicitly calls out accounting controls and states the contracting officer will consider DFARS 209.104-1(e) for cost reimbursement contracts. In addition, FAR 7.105(b)(3) is clear that the contracting officer ensures the contractor's accounting system is adequate and documented to support the contract type selection within the contents of the written acquisition plan.

Air Force Contracting is developing several measures to ensure compliance:

- a. A Tactics, Techniques, and Procedures (TTP) will be published to stress the importance for the contracting officer to use the D&F template established in AFFARS Part 5309.104-1 to document contractor responsibility determinations to include coordination with DCMA and other government sources of information to inform the

Deputy Assistant Secretary of the Air Force (Acquisition, Technology, and Logistics) (cont'd)

contracting officer's determination. Estimated completion date is 180 days after final audit report is received.

b. The acquisition plan template instructions in AFFARS 5307.105 Section II. Plan of Action C. Contract Type Selection will also be updated to include a mandatory field to address the contractor's accounting system IAW FAR 7.105. Estimated completion date is 180 days after final audit report is received.

c. To ensure the widest dissemination of the audit findings, a "What's New in Air Force Contracting" publication will be sent in a career-field wide email and posted on the Air Force Contracting Central website. Estimated completion date is 120 days after final audit report is received.

3. The SAF/AQC point of contact is [REDACTED] or via email at [REDACTED]



DARLENE J. COSTELLO
Principal Deputy Assistant Secretary of the Air
Force (Acquisition, Technology & Logistics)

Army Contracting Command



DEPARTMENT OF THE ARMY
OFFICE OF THE ASSISTANT SECRETARY OF THE ARMY
ACQUISITION LOGISTICS AND TECHNOLOGY
103 ARMY PENTAGON
WASHINGTON DC 20310-0103

SAAL-ZP

MEMORANDUM FOR INSPECTOR GENERAL, DEPARTMENT OF DEFENSE, 4800
MARK CENTER DRIVE, ALEXANDRIA, VA 22350-1500

SUBJECT: DODIG Discussion Draft Report: Audit of the Military Services' Award of Cost-
Reimbursement Contracts (Project No. D2021-D000AV-0082.000)

1. In accordance with Army Regulation 36-2, Audit Services in the Department of the Army, Section II, paragraph 1-9 (f), I am providing the Official Army Position (OAP) for Recommendations 5 and 6. I concur with the attached responses to Recommendations 5 and 6.

2. If there are any questions, please contact [REDACTED] at [REDACTED] or [REDACTED].

LYONS.NANC

Y.

Nancy Lyons
Chief, Services and Weapons
Systems Contracting, Office of the
Deputy Assistant Secretary of Army
(Procurement)

Encl

Army Contracting Command (cont'd)



DEPARTMENT OF THE ARMY
HEADQUARTERS, U.S. ARMY MATERIEL COMMAND
4400 MARTIN ROAD
REDSTONE ARSENAL, AL 35898-5000

AMIR

15 JUL 2022

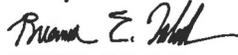
MEMORANDUM FOR Department of Defense Inspector General ([REDACTED])
[REDACTED] Program Director for Audit Acquisition, Contracting and Sustainment,
4800 Mark Center Drive, Alexandria, VA 22350-1500

SUBJECT: Command Comments to DoDIG Report: Audit of the Military Services'
Award of Cost-Reimbursement Contracts, Project D2021-D000AV-0082.000

1. The U.S. Army Materiel Command has reviewed and endorses the subject draft report and responses from the U.S. Army Contracting Command. Specific comments are included at the enclosure.

2. The U.S. Army Materiel Command point of contact is [REDACTED]
[REDACTED] or [REDACTED]

Encl


BRIAN E. TOLAND
Executive Deputy to the
Commanding General

Army Contracting Command (cont'd)



DEPARTMENT OF THE ARMY
U.S. ARMY CONTRACTING COMMAND
4505 MARTIN ROAD
REDSTONE ARSENAL, AL 35898-5000

AMCC-IR (RN 11-7a)

07 JUL 2022

MEMORANDUM FOR [REDACTED] Director, Internal Review and Audit Compliance Office, Headquarters, U.S. Army Material Command, 4400 Martin Road, Redstone Arsenal, AL 35898-5000

SUBJECT: Department of Defense Inspector General (DoDIG) Audit Draft Report Project No. D2021-D000AV-0082.000 (CUI) Military Services' Award of Cost-Reimbursement Contracts

1. Reference. DoDIG Audit Draft Report (CUI) "Military Services' Award of Cost-Reimbursement Contracts" (Project Number D2021-D000AV-0082.000)
2. The Commanding General, U.S. Army Contracting Command (ACC) concurs with Recommendations 5a-c and 6a-c.
3. On 27 April 2022, the ACC-Aberdeen Proving Ground (APG)- Contracting Operations Chief updated the APG Small Business Innovation Research (SBIR) Standard Operating Procedures for awarding cost-reimbursement contracts through the SBIR program.
4. On 9 June 2022, ACC-APG Fort Huachuca, developed, distributed, and implemented procedures for contracting officials to properly obtain and document contracting files for cost-reimbursement contracts.
5. The ACC point of contact for this memorandum is [REDACTED], Internal Review Audit and Compliance Office, at [REDACTED] or [REDACTED]

Encl


CHRISTINE A. BEELER
Brigadier General, USA
Commanding

Army Contracting Command (cont'd)



DEPARTMENT OF THE ARMY
U.S. ARMY CONTRACTING COMMAND - ABERDEEN PROVING GROUND
6472 INTEGRITY COURT, BUILDING 4401
ABERDEEN PROVING GROUND, MD 21005-3013

CCAP-OPC

13 June 2022

MEMORANDUM THRU [REDACTED] U.S. Army Contracting Command Internal Review and Audit Compliance Office, 4505 Martin Road, Redstone Arsenal, AL 35898-5000

For [REDACTED] Program Director for Audit, Acquisition, Contracting and Sustainment, Department of Defense Inspector General, 4800 Mark Center Drive, Alexandria, VA 22350-1500

SUBJECT: Response to Draft Report "Audit of the Military Services' Award of Cost-Reimbursement Contracts" (Project No. D2021-D000AV-0082.000)

1. Reference HQ U.S. Army Contracting Command, ([REDACTED]), email (Draft Report "Audit of the Military Services Award of Cost Reimbursement Contracts (Project No. D2021-D000AV-0082.000)", 8 June 2022.
2. U.S. Army Contracting Command – Aberdeen Proving Ground comments on recommendations within subject audit are enclosed.
3. The point of contact is [REDACTED]

Encl

MITCHEM.MARTHA [REDACTED]
.L. [REDACTED]
for KENYATA L. WESLEY, SR
Executive Director

Army Contracting Command (cont'd)

ACC-APG Response to Draft Report "Audit of the Military Services' Award of Cost-Reimbursement Contracts" (Project No. D2021-D000AV-0082.000)

Background:

The Department of Defense Inspector General conducted an audit of Army Contracting Command-Aberdeen Proving Ground (ACC-APG) contract files regarding the use of cost-reimbursement contracts when contracting officials cannot definitively describe work or estimate its costs with any reasonable degree of certainty. Cost-reimbursement contracts are high risk for the Department of Defense (DoD) due to the potential for cost escalation and because the government pays the contractor's costs, up to the amount obligated on the contract, even without a final deliverable. Specifically, cost-reimbursement contracts provide little to no incentive for a contractor to limit costs, unless there is an incentive built into the contract for that purpose.

Contracting officials did not appropriately award cost-reimbursement contracts because they incorrectly assumed Federal and DoD regulations for awarding cost-reimbursements contracts did not apply to research and development contracts, including those awarded under a Broad Agency Announcement. In addition, contracting officials assumed the requirement to document the possibility for a cost-reimbursement contract to a firm-fixed price contract did not apply when it was determined that no follow-on contracts were anticipated.

Overall, the draft audit report makes seven recommendations with two specifically for ACC-APG.

Report recommendation 5 is for the Director of Contracting, ACC-APG – Fort Huachuca to develop, distribute, and implement procedures for contracting officials to obtain and document in the contract file:

- a. Proper approval for the use of cost-reimbursement contracts regardless of the nature of the contract or whether an acquisition plan is required.
- b. Justification for the use of cost-reimbursement contracts regardless of the nature of the contract or whether an acquisition plan is required.
- c. Potential for cost-reimbursement contracts to transition to firm-fixed-price contracts to the maximum extent practicable, regardless of the nature of the contract or whether an acquisition plan not required.

Recommendation 6 is for the Chief of Contracting Operations, ACC-APG, to update procedures for awarding cost-reimbursement contracts through the Small Business Innovation Research (SBIR) program to require contracting officials, at a minimum, to:

Army Contracting Command (cont'd)

ACC-APG Response to Draft Report "Audit of the Military Services' Award of Cost-Reimbursement Contracts" (Project No. D2021-D000AV-0082.000)

- a. Obtain and document in the acquisition plan or contract file the proper approval for the use of cost-reimbursement contracts, in accordance with the Federal Acquisition Regulation (FAR).
- b. Document justification for the use of cost-reimbursement contracts, in accordance with the FAR.
- c. Document the potential for a cost-reimbursement contract to transition to firm-fixed-price to the maximum extent practicable, in accordance with the FAR.

Response to Recommendation 5

ACC-APG concurs with the recommendation. As of 9 June 2022, ACC-APG Fort Huachuca developed, distributed, and implemented procedures for cost-reimbursement contracts regardless of the nature of the contract or when an acquisition plan is not required. Throughout Fiscal Year 2022, ACC-APG - Fort Huachuca awarded three cost-reimbursement contracts with one as SBIR. All requirements were met. ACC-APG - Fort Huachuca has created a report to identify all cost contracts in the division and will monitor for compliance through the Paperless Contract File (PCF). Spot checks will be conducted for the remainder of the fiscal year for cost awards. The PCF Gatekeeper will remind the Branch Chief and Contracting Officer to review the ACC-APG SBIR Standard Operating Procedures (SOP) to ensure the award file contains all required documentation.

Response to Recommendation 6

ACC-APG concurs with the recommendation. On 27 April 2022, ACC-APG updated the SBIR SOP to include procedures for awarding cost-reimbursement contracts through the SBIR program. Mission Operation Directors and Division Chiefs were notified via email on 28 April 2022. The requirements for all cost reimbursement contracts were issued via ACC-APG Contracting Operations Weekly Update dated 29 April 2022.

Acronyms and Abbreviations

ACC	Army Contracting Command
AFB	Air Force Base
APG	Aberdeen Proving Ground
A&S	Acquisition and Sustainment
BAA	Broad Agency Announcement
COR	Contracting Officer's Representative
DCMA	Defense Contract Management Agency
DFARS	Defense Federal Acquisition Regulation Supplement
DPC	Defense Pricing and Contracting
FAR	Federal Acquisition Regulation
MCSC	Marine Corps Systems Command
NAVAIR	Naval Air Systems Command
NAVSEA	Naval Sea Systems Command
NAVSUP	Naval Supply Systems Command
OUSD	Office of the Under Secretary of Defense
R&D	Research and Development
SBIR	Small Business Innovation Research
SOP	Standard Operating Procedure



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