



U.S. DEPARTMENT OF TRANSPORTATION  
**OFFICE OF INSPECTOR GENERAL**

**Improvements Could Be Made in FAA's  
Award and Oversight of SE2020  
Acquisition Program Task Orders**

**FAA**

Report No. ZA2018029

February 28, 2018





## Improvements Could Be Made in FAA's Award and Oversight of SE2020 Acquisition Program Task Orders

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*Self-Initiated*

Federal Aviation Administration | ZA2018029 | February 28, 2018

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### What We Looked At

The Federal Aviation Administration's (FAA) Next Generation Air Transportation System (NextGen) is a multibillion-dollar system intended to modernize the Nation's air traffic system. To support NextGen and non-NextGen initiatives, FAA awarded seven multiple-award contracts under the Systems Engineering 2020 (SE2020) portfolio. In this follow-up report to our 2012 audit of SE2020, we assessed whether the FAA's actions for (1) awarding task orders and (2) overseeing the SE2020 acquisition program were sufficient to meet its program mission.

### What We Found

FAA's insufficient policies and guidance for awarding SE2020 task orders hindered the Agency's efforts to fully achieve its mission. First, FAA awarded program management task orders and used high assessment fees to fund them—up to 10 percent—from January 2012 to September 2015. Second, while FAA has increased competition for new task orders, it has experienced challenges in competing follow-on task orders and has not updated its SE2020 program office's task order award standard operating procedure to reflect its emphasis on competition. As a result of these weaknesses, the SE2020 contract did not achieve its level of expected use. Originally FAA estimated SE2020 would provide \$7.1 billion in support services, but the Agency has since lowered its estimate to \$1.2 billion.

FAA's ineffective oversight and management of SE2020 limited its ability to achieve program goals. For example, FAA's SE2020's payment processes lacked sufficient oversight, causing delays in making invoice payments and recouping overpayments. Furthermore, the SE2020 program office lacks effective and up-to-date program management plans and a strong oversight framework and guidance for managing large multiple-award contracts. This lack of specific policy to manage multiple-award contracts such as the SE2020 program hinders FAA's ability to provide effective oversight that ensures such contracts meet their intended goals.

### Our Recommendations

FAA concurred with our 11 recommendations to improve its award, management, and oversight of the SE2020 program and other multiple-award contract vehicles. Based on FAA's response, we consider all 11 recommendations resolved and open pending completion of planned actions.

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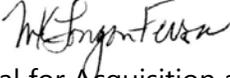


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## Memorandum

Date: February 28, 2018

Subject: Improvements Could Be Made in FAA's Award and Oversight of SE2020 Acquisition Program Task Orders | Report No. ZA2018029

From: Mary Kay Langan-Feirson   
Assistant Inspector General for Acquisition and Procurement Audits

To: Federal Aviation Administrator

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The Federal Aviation Administration's (FAA) Next Generation Air Transportation System (NextGen) is a multibillion-dollar system intended to modernize our Nation's air traffic system. To support NextGen and non-NextGen initiatives, FAA awarded seven multiple-award contracts under the Systems Engineering 2020 (SE2020) portfolio. SE2020 is one of the largest portfolios of contracts that FAA has ever awarded, with a total award baseline of \$1.2 billion.<sup>1</sup> The SE2020 program's mission includes providing FAA customers with fast, efficient, and cost effective means to facilitate mission accomplishment with technical and support resources to benefit and advance NextGen goals.

In 2012, we reviewed FAA's initial award and use of SE2020 contracts and reported that the Agency's contracting practices were insufficient.<sup>2</sup> We found that requirements in FAA's Acquisition Management System (AMS)<sup>3</sup> were unclear, resulting in unreliable cost baselines and overstated contract values that impeded the Agency's ability to manage total contract costs. In addition, FAA's practices for selecting contractors and overseeing their performance were insufficient.

Due to concerns we identified in 2012, and the significant funding involved, we initiated this audit with the objectives to assess whether FAA's actions for

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<sup>1</sup> FAA's Chief Financial Officer (CFO) originally approved an SE2020 baseline of \$7.1 billion. However, in 2015, FAA revised its total cost estimate for the SE2020 contracts to \$1.2 billion, which FAA currently reports as its total baseline.

<sup>2</sup> *FAA's Contracting Practices Are Insufficient To Effectively Manage Its Systems Engineering 2020 Contracts* (OIG Report No. ZA2012082), March 28, 2012.

<sup>3</sup> In DOT's Fiscal Year 1996 Appropriations Act, Congress provided FAA with broad authority to develop its own acquisition process, which relieved the Agency from Federal acquisition laws or regulations. FAA established the AMS, a set of policies and guidance designed to address the unique needs of the Agency.

(1) awarding task orders and (2) overseeing the SE2020 acquisition program were sufficient to meet its program mission.

We conducted this review in accordance with generally accepted Government auditing standards. Exhibit A details our full scope and methodology.

We appreciate the courtesies and cooperation of Department of Transportation representatives during this audit. If you have any questions concerning this report, please call me at (202) 366-5225 or Tony Wysocki, Program Director, at (202) 493-0223.

cc: The Secretary  
DOT Audit Liaison, M-1  
FAA Audit Liaison, AAE-100

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## Results in Brief

### **Insufficient policies and guidance for awarding SE2020 task orders hindered FAA's efforts to fully achieve its mission.**

First, FAA awarded program management task orders and used high assessment fees to fund them—up to 10 percent<sup>4</sup>—from January 2012 to September 2015. Although FAA has since discontinued this practice, the Agency's initial use of these program management task orders and its initial implementation of high assessment fees occurred in part because FAA lacks specific policy, guidance, or instructions for program offices on fees charged to other Agency offices in exchange for the use of a contracting vehicle or the provision of services. Agency officials and customers told us that the high fees deterred potential customers from using SE2020. Second, while FAA has increased competition for new task orders, it has experienced challenges in competing follow-on task orders and has not updated its SE2020 program office's task order award standard operating procedure to reflect its emphasis on competition. Third, the SE2020 program office did not consistently meet its timeliness goals for awarding task orders. Although FAA has taken steps to improve its award timeliness, its early delays in awarding task orders discouraged users from further SE2020 use. Also, FAA has not documented its procedures to sustain its improvements in task order award time. As a result of these weaknesses, the SE2020 contract did not achieve its level of expected use. FAA had estimated the SE2020 contract would provide \$7.1 billion in support services. However, the Agency subsequently lowered its estimate to \$1.2 billion—\$6 billion less than originally expected. This overestimation occurred in part because FAA's AMS lacks specific policy or guidance for planning multiple-award contracts, such as estimating contract hours and costs. Consequently, FAA may have missed out on SE2020's expected benefits of faster, more efficient, and cost effective NextGen services.

### **FAA's ineffective oversight and management of SE2020 limited its ability to achieve program goals.**

For example, FAA's SE2020's payment processes lacked sufficient oversight, causing delays in making invoice payments and recouping overpayments. Specifically, between fiscal years 2010 to 2016, FAA paid 762 of 7,035 (11 percent) SE2020 invoices late, costing the Agency \$33,941 in interest penalties. In comparison, during the same period, FAA overall paid only 1 percent of its total Agency invoices later than 30 days. These untimely invoice payments occurred in part because the SE2020's invoicing process differed from FAA's typical

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<sup>4</sup> FAA reduced the fee to 5 percent in April 2012, and customers who paid the initial 10 percent assessment fee were reimbursed the 5 percent difference.

requirements for invoice processing, and FAA's delay in recouping overpayments occurred in part because AMS lacks specific policy or guidance on the appropriate fee payment structure for these contracts. In addition, FAA has experienced delays in obtaining required incurred cost audits—which help FAA identify unallowable costs and manage contract funds—and has not adequately overseen vendor performance. Furthermore, the SE2020 program office lacks effective and up-to-date program management plans, as well as a strong oversight framework and guidance for managing large multiple-award contracts. Because FAA lacks specific policy to manage multiple-award contracts such as the SE2020 program, the Agency is hindered in providing effective oversight to ensure such contracts meet their intended goals.

We are making recommendations to improve FAA's award, management, and oversight of SE2020 and other multiple-award contracts.

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## Background

In 2010, FAA awarded its portfolio of seven multiple-award SE2020 contracts to provide up to 10 years of technical and professional support services for NextGen—a Presidential infrastructure priority—and non-NextGen systems, programs, and functions.<sup>5</sup> Four of the contracts awarded are for research and mission analysis (RMA), and three are for systems engineering (SE) support services. Multiple-award vehicles are intended to save the Government money with market based pricing that leverages Government buying power and save time by providing the ability to award task orders on pre-competed, on-demand contracts.<sup>6</sup> Multiple-award contracts are also intended to streamline the award and ordering process, and enable the Government to obtain high-quality supplies and services and take advantage of the latest available technological changes.<sup>7</sup>

SE2020 contracts are managed by FAA's Systems Engineering Contracts Branch (the SE2020 program office), which is part of the NextGen Management Services Office. The SE2020 program office has dedicated contracting officer representatives (COR) to manage the oversight of the contracts. SE2020's mission

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<sup>5</sup> The 10-year performance period includes a 5-year base with two renewal (option) periods of 3 and 2 years respectively.

<sup>6</sup> General Services Administration, *Multiple Award Schedules Desk Reference* (2016).

<sup>7</sup> Department of Energy, *Acquisition Guide: Multiple-Award Contracts and Government-wide Acquisition Contracts Including Delivery Orders and Task Orders*, Chapter 16.5 (2011).

is to provide customer support to functional program offices (users)<sup>8</sup> throughout FAA when using the SE2020 contract portfolio (see table 1).

Table 1. SE2020's Mission

SE2020 Mission Statements	
1.	Provide FAA customers with fast, efficient, and cost effective means to facilitate mission accomplishment with technical and support resources
2.	Effectively maintain the SE2020 program office infrastructure and resource capabilities that administers SE2020 contracts and its task orders
3.	Provide "value added" management to evaluate economies of scale and reduce duplicity in system engineering support services
4.	To ensure that SE2020 task order deliverables produce value added benefits to advance NextGen goals

Source: FAA's SE2020 Program Management Plan

The SE2020 program office works in collaboration with the SE-2020/SE-2025 Contracting Branch (the SE2020 contracting office) and contracting officers,<sup>9</sup> who report to FAA's Acquisitions and Business Services group (see figure 1).<sup>10</sup> According to FAA, as of June 2016, the SE2020 program office has awarded 297 task orders, with a total value of \$753 million. The program office also manages the SE2025 Small Business Competition procurement vehicle.<sup>11</sup>

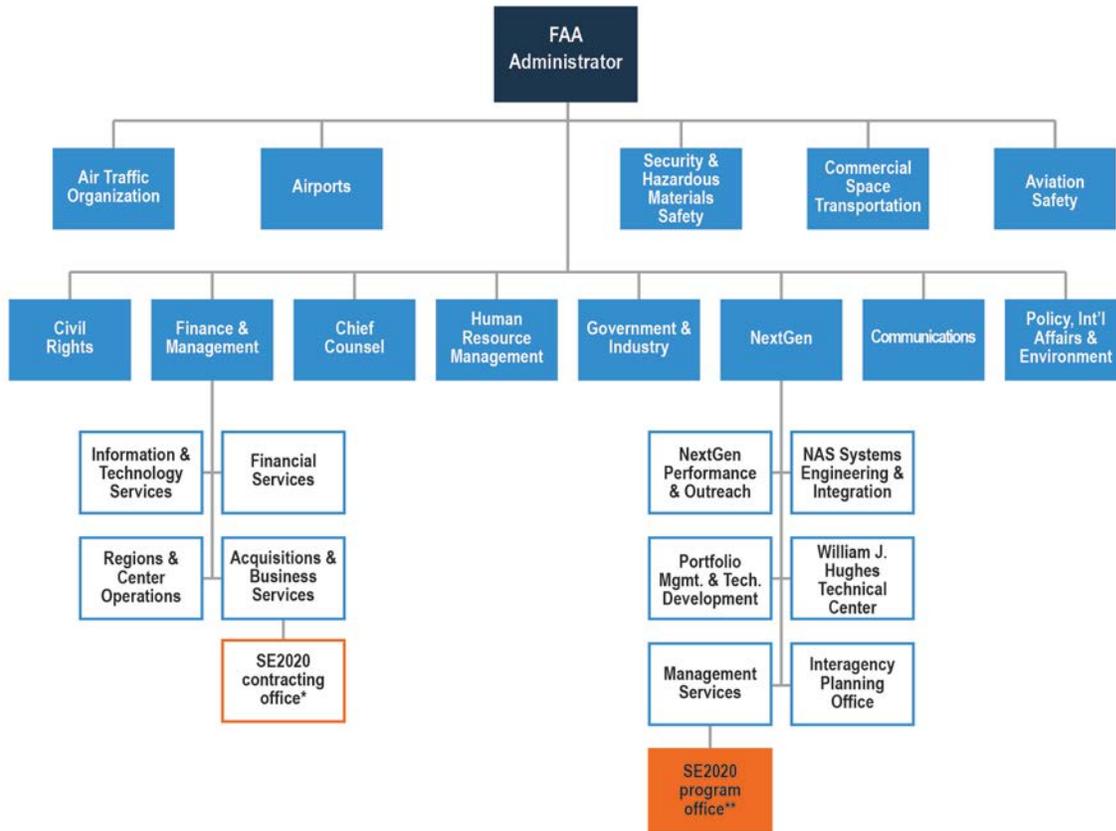
<sup>8</sup> When FAA's technical program offices sponsors want to award a SE2020 task order, they coordinate with the SE2020 program office and appoint a technical officer representative (TOR) to assist the COR.

<sup>9</sup> Contracting officers supporting the SE2020 program office reside both directly within the SE2020 contracting office and also in other FAA contracting offices.

<sup>10</sup> Figure 1 shows the official names of the individual offices. For clarity, in this report we refer to the Systems Engineering Contracts Branch as the SE2020 program office, which is the office primarily responsible for carrying out the SE2020 mission in table 1.

<sup>11</sup> FAA awarded the SE2025 vehicle contracts in 2015—multiple-award contracts geared towards small business—to provide RMA and SE support for the Agency's NextGen program.

Figure 1. SE2020's Organization Within FAA



\* The official name of this office is the SE-2020/SE-2025 Contracting Branch. For clarity, we refer to it as the SE2020 contracting office.

\*\* The official name of this office is the Systems Engineering Contracts Branch. For clarity, we refer to it as the SE2020 program office.

Source: FAA information

Through SE2020's Engagement process, the program office and users identify requirements to be fulfilled within the RMA or SE portions of the SE2020 portfolio. These requirements are fulfilled under individually funded task orders, which FAA then awards primarily on a cost-reimbursement basis. Individual task orders define specific requirements that contractors must accomplish within the base contract's statement of work. Each task order has an award value, specifies a period of performance, and establishes the number of labor hours that a contractor will provide (see table 2).

Table 2. Overview of FAA’s Engagement Process for Awarding SE2020 Task Orders

Steps in FAA’s Engagement Process	
<p>START</p>  <p>END</p>	<p>Customer initiates task order pre-award process via submission of a draft Statement of Work (SOW), cost estimate and legacy contract information.</p>
	<p>Contracting Officer (CO), SE2020 program office, Customer, and Engagement Team meet to discuss initial procurement strategy. The Engagement Team is comprised of contract support staff and a pre-award technical evaluator in the program office, and provides contract support, review and coordination. The CO determines which (1) contract vehicle (SE2020 or SE2025) and (2) award approach (competitive or directed); and the SE2020 program office determines (3) contract category (Research &amp; Mission Analysis or Systems Engineering).</p>
	<p>Engagement Team assists Customer in drafting task order request package.</p>
	<p>Customer finalizes task order request package.</p>
	<p>SE2020 Adjudication Board—composed of representatives from the SE2020 contracting and program offices—meets with legal, the Customer, and the Engagement Team to review the task order request package and finalize procurement strategy. If the Board decides to direct the award, it selects the vendor at this point. If the Board decides to compete the award, the process continues.</p>
	<p>Customer identifies Technical Evaluation Team, which will review and evaluate the technical proposals.</p>
	<p>CO and Customer develop the task order evaluation plan based on template.</p>
	<p>CO creates task order request for proposal and releases to vendors.</p>
	<p>Technical Evaluation Team evaluates technical proposals and develops technical evaluation report.</p>
	<p>Source Selection Official, who could also be the CO, makes the award decision based on a best value assessment of the technical and price proposals.</p>
	<p>Legal reviews the award documentation and provides comments to the CO.</p>
	<p>CO awards task order to winning vendor.</p>

Source: OIG analysis of FAA information

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# Insufficient Policies and Guidance Hindered FAA's Efforts To Fully Achieve SE2020's Mission

FAA's lack of sufficient policies and guidance in awarding SE2020 task orders hindered the achievement of SE2020's program mission. For example, FAA charged high assessment fees when awarding initial SE2020 task orders to fund program management task orders, due in part to a lack of specific policy or guidance on these activities. In addition, while FAA has increased its task order competition rates, it has not yet updated its procedure to reflect and sustain its competition practices and has experienced challenges in competing follow-on task orders. Furthermore, while FAA has made improvements in reducing its task order award times, it did not meet its award goals in the first 4 years of performance. As a result of these issues, SE2020 did not achieve the level of use initially expected for the program.

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## FAA Lacks Policies for the Use of Program Management Task Orders and Assessment Fees

FAA charged high assessment fees to its customers to help fund program management task orders from 2012 to 2015. Eventually, FAA discontinued this practice but has still not adopted specific policies and guidance on the appropriate use of program management task orders or assessment fees. Specifically, from 2010 to 2015, in addition to task orders to acquire technical services, FAA awarded 24 task orders totaling \$55.2 million<sup>12</sup> to its 7 SE2020 prime vendors to conduct program management services. FAA awarded these program management task orders before it knew the full work requirements on any technical task orders on the SE2020 contract—these were the first task orders to be awarded under the SE2020 contract vehicle.

FAA's award of these program management task orders is uncommon. Specifically, FAA used the program management task orders to pay the SE2020 prime contractors for a broad range of services such as the following:

1. Developing cost estimates and proposals for their own technical task order awards
2. Managing and providing facilities for SE2020 contractor staff

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<sup>12</sup> From 2010 to 2015, FAA's non-project-management task orders totaled \$598.6 million.

3. Processing résumés
4. Managing contract portfolios for all SE2020 task orders

Also, many of these services are frequently included in a contractor's direct or indirect rates and can be billed directly on technical task orders. FAA determined the award amounts for the initial program management task orders from estimates each prime vendor submitted based on previous work completed with FAA and the amount of work it expected through the SE2020 contract vehicle.

Initially, the SE2020 program office used a portion of its annual appropriation—which since fiscal year 2011 ranged from \$32 million to \$38 million—to fund the program management task orders. However, in January 2012, the SE2020 program office applied a 10 percent cost sharing assessment fee to all task orders awarded to fund program management task order costs. In a February 2012 memorandum to its customers, the SE2020 program office explained that subsidizing 100 percent of the program management task orders indefinitely was never its intent. However, the SE2020 program office did not have a mechanism in place to forecast and plan when to start assessing a fee and when the fee should be recalculated. Additionally, in fiscal year 2012, due to a budget shortfall, FAA used \$14 million in fiscal year 2010 expiring finds from different program offices to pay for the SE2020 program management task orders and technical task orders. Without the \$14 million from different program offices and implementation of an assessment fee, the SE2020 program office may have had to modify task orders to reduce scope and/or level of effort or increase the assessment fee to ensure sufficient funding.

However, the 10 percent assessment fee was unpopular with customers and eventually came to the attention of FAA's CFO's office. As a result of a meeting between the CFO and SE2020 management, FAA reduced the fee to 5 percent in April 2012, and customers who paid the initial 10 percent assessment were reimbursed the 5 percent difference. The SE2020 program office did not renew the program management task orders at the end of the base contract and eliminated the assessment fee in September 2015. Instead, SE2020 vendors now place program management-related costs directly on the specific technical task order, and these costs are paid for by the customer. FAA officials told us that they could not precisely identify the costs and benefits of using program management task orders for these services compared to charging directly for them on individual task orders.

FAA's use of program management task orders and its initial implementation of high assessment fees occurred in part because FAA's AMS lacks specific policy, guidance, or instructions regarding the use of program management task orders

and the assessment of fees to other Agency offices. In contrast to SE2020's 10 percent assessment, FAA's eFAST,<sup>13</sup> a multiple-award small business portfolio of contracts, charges a fee of 3 percent. FAA maintains that its SE2020 program office provides unique services to customers, such as dedicated Contracting Officer Representatives that provide oversight functions and a standardized platform which efficiencies are difficult to quantify. And, in the absence of FAA policy on the assessment of fees across the Agency, the SE2020 program office was able to charge the fees it deemed reasonable. However, these fees had a negative impact on the contract's use. Several of FAA's SE2020 officials, including staff from its customer offices, told us that the SE2020 program's high assessment fees deterred potential customers from using SE2020.

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## **FAA Improved Its Task Order Competition Rate but Has Not Updated Procedures To Reflect and Sustain Its Improvements**

Since 2013, FAA has taken steps to improve the competition of its SE2020 task orders. AMS encourages competition in FAA's contracting when possible, and the Federal Acquisition Regulation (FAR) also encourages agencies to maintain fair opportunity and consideration to all contractors when awarding task orders for multiple-award contracts. Competition helps the Government achieve the lowest price, motivates contractor performance, and promotes innovation. In 2013, in response to our 2012 SE2020 audit report, FAA began to require that customers submit a competition waiver to its Adjudication Board for task orders estimated to be over \$5 million when they wanted to single or sole source a requirement. As a result, since fiscal year 2013, the SE2020 task order competition rate increased from 5 to 68 percent (38 of 56 task orders).<sup>14</sup>

However, FAA has experienced challenges in competing follow-on task orders. We found that the SE2020 program awarded all 10 follow-on task orders in our audit sample<sup>15</sup> to the incumbent vendor. Of those 10 follow-on awards, the

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<sup>13</sup> The Electronic Federal Aviation Administration Accelerated and Simplified Tasks (eFAST) is FAA's preferred contracting vehicle for small business contracts. Although the eFAST office employees' salaries are allocated from appropriated funds, the eFAST program itself is funded by the service fees it charges.

<sup>14</sup> For this calculation, we used SE2020's universe of awarded task orders. From fiscal years 2010 to 2012, the first 3 years of the SE2020 vehicle, SE2020's criteria for competing task orders was not fully developed. Therefore, we used FAA data provided to calculate the 5 percent competition rate for this time period. In contrast, starting in fiscal year 2013, when FAA established competition criteria, we removed the program management task orders and directed small business task orders where the incumbent was a small business, as we considered these task orders not eligible for competition.

<sup>15</sup> In our audit sample, we found that the SE2020 program competed 19 of 40 task orders. We found that 10 of the 19 competed task orders were follow-on awards.

customers for 6 of them initially requested the award go to the incumbent vendor. While it is not unusual for a customer to want to remain with the existing vendor, a lack of competition may negatively affect the price paid for services and limit FAA from achieving performance benefits that can be gained from competition. The following example illustrates how a customer’s strong preference for an incumbent vendor impacted the competitive process (see table 3).

Table 3. Example of FAA’s Award to an Incumbent Vendor

Steps Taken in Award Process in This Example	
<b>START</b>	<p><b>Customer program office</b> submitted a task order request package to the <b>SE2020 program</b>.</p> <hr/> <p><b>SE2020 program</b> determined that the task order Statement of Work (SOW) was within the scope of SE2020 contracts and recommended it for the Systems Engineering (SE) SOW.</p> <hr/> <p><b>Customer program office</b> presented case for task order to be placed on the Research &amp; Mission Analysis (RMA) SOW and indicated desire to sole source to incumbent vendor on the RMA SOW.</p> <hr/> <p><b>SE2020 Adjudication Board</b> agreed with the customer program office for work to be placed under the RMA SOW but rejected sole-source request, as the incumbent had a poor past performance rating on its prior task order. According to FAA, the vendor received an acceptable past performance rating for technical accuracy and quality of services, but there were past performance issues related to invoicing and delays in staffing.</p> <hr/> <p><b>SE2020 program competed</b> the task order under the RMA SOW, and FAA received two bids, including one from incumbent.</p> <hr/> <p><b>Customer’s Technical Evaluation Team (TET)</b> evaluated the two bids. However, the TET was not made aware of the incumbent’s poor past performance rating and rated it higher during the review.</p> <hr/> <p><b>SE2020 program</b> awarded the task order to the incumbent, but there was no documentation of how the incumbent’s prior poor performance ratings would be addressed. Despite this risk, FAA maintains that ultimately, the incumbent provided a better value to the Government.</p>
<b>END</b>	

Source: OIG analysis

Furthermore, while the SE2020 program has increased competition overall, the SE2020 program office has not yet updated and disseminated its task order award standard operating procedure to reflect its new emphasis on competition for the majority of its task orders. As a result, FAA may not be able to sustain the recent improvements it has experienced in competing task orders.

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## While FAA Reduced Its SE2020 Task Order Award Times, Its Earlier Lack of Timeliness Deterred Customers

One of the benefits of a large multiple-award vehicle such as SE2020 is to shorten the time it takes to conduct an acquisition. For example, SE2020 program’s goals include providing customers with fast services to accomplish their mission, including a streamlined award process that is measured by its task order award goal. While we found that SE2020 did not meet its task order award times in the early years of the contract, in recent years, FAA has taken steps to improve the timeliness of its SE2020 awards.

When initially awarded, SE2020 had a 4-week goal for timely issuance of task orders. However, it has revised this goal several times since the initial year of performance. Between 2010 and 2013, FAA’s actual award times ranged from 2 to 6 weeks longer than award goals. To its credit, since 2014, FAA’s SE2020 program office has, on average, achieved its award timeliness goals (see table 4).

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Table 4. SE2020 Timeliness Goals and Actual Award Time

Year	Timeliness Goal <sup>a</sup>	Actual Award Time
2010	4 weeks	6 weeks
2011	6 weeks	12 weeks
2012	8 weeks	11 weeks
2013	8 weeks	13 weeks
2014	8 weeks	8 weeks
2015	8 weeks	9 weeks
2016	9 weeks	8 weeks

<sup>a</sup> FAA used the same goals for its competed and non-competed SE2020 task order awards.

Source: OIG analysis of FAA information

Although FAA stated that it has refined its processes and taken some steps to improve award timeliness, the Agency did not collect and monitor each step within the task order award process to enable it to identify specific points of delay until 2016. Due to the SE2020 program office’s revisions of its timeliness

goals in 2016 and limited available data with respect to these revisions, we were not able to determine the specific factors that contributed to these improvements and whether current trends will be sustained.

Moreover, FAA's inability to streamline the task order award process during the early years of the contract may have affected overall use of the program. From 2010 to 2013, when 91 percent of non-competed task orders were awarded (201 task orders) and 72 percent of the total SE2020 task orders were awarded, the program office did not meet its timeliness goals. According to customers we interviewed, the length of time it took SE2020 to award task orders deterred them from using SE2020 for their future procurement needs. For example, after staff in one customer office experienced delays on two task order awards, they began to request waivers from using SE2020 for their future procurement needs. As a result of the early timeliness problems, FAA may have missed opportunities to attract and support its customers.

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## **FAA Did Not Achieve the Amount of Use It Expected for the SE2020 Contract**

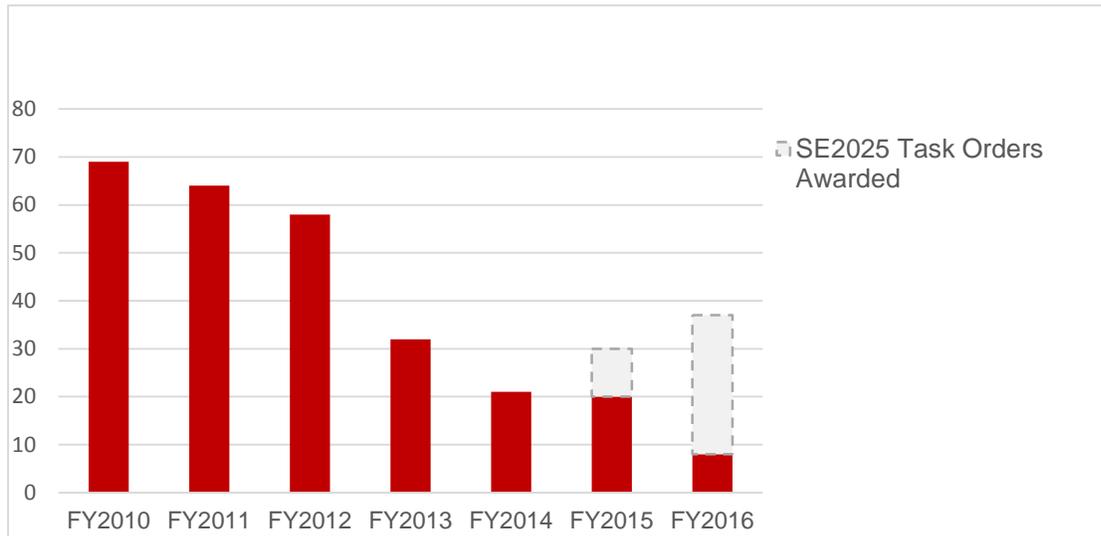
FAA's weaknesses in awarding SE2020 task orders contributed to the SE2020 contract not being used by customers as much as originally expected. Specifically, when FAA's CFO approved the SE2020 award in 2010, the CFO approved an estimated \$7.1 billion in research and systems engineering support services during the contracts' 10-year period of performance.<sup>16</sup> However, the SE2020's contract's actual task order award value over the 10-year life of the contract will not come close to the \$7.1 billion original baseline estimate—in fact, in September 2014, FAA significantly reduced its SE2020 estimate to \$1.2 billion.

Despite efforts by FAA NextGen management to encourage customers to use SE2020 as the primary vehicle for satisfying NextGen business needs, the program office did not award as many task orders as anticipated. When FAA exercised the first SE2020 contract option in 2015, it had only awarded 289 task orders valued at approximately \$700 million (see figure 2).

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<sup>16</sup> The \$7.1 billion award estimate was based on Independent Government Cost Estimates (IGCE) developed by FAA prior to SE2020's award. FAA's initial estimates for the first 5 years of the SE2020 contract were much higher than its actual obligations during that same time—indicating that its initial IGCEs were flawed. From fiscal years 2010 to 2014, FAA obligated only \$427 million (22 percent) of the almost \$2 billion it had estimated it would spend in the first 5 years.

Figure 2. Total SE2020 Task Orders Awarded by Fiscal Year



Source: OIG analysis of FAA data

SE2020 program officials and staff in its customer offices attributed a range of reasons for the gap between FAA’s expected and actual use of SE2020, including:

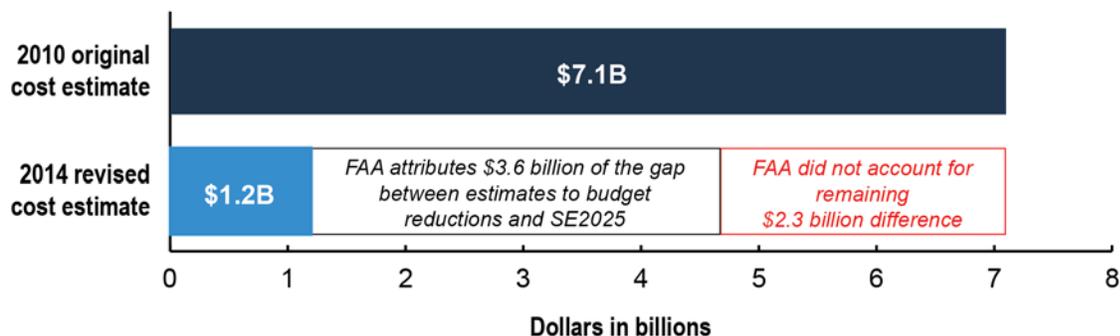
- A constrained budget environment, including sequestration,
- Lengthy task order processing time,
- Challenges in forecasting procurement needs 10 years in advance,
- Other available contracts with similar support services,
- Contract assessment fees, and
- Lack of knowledge about the benefits of SE2020.

In particular, FAA officials stated that the underutilization of SE2020 is primarily attributed to Agency budget reductions in NextGen and their impact on FAA’s planned RMA needs. FAA pointed out that the biggest gap in anticipated use of SE2020 was in the RMA portion of the portfolio. FAA maintains that its actual level of SE2020 awards was sufficient to achieve efficiencies in contract management and administration and that it was not aware of any negative impact to NextGen due to SE2020’s underutilization. FAA also told us that its establishment of the SE2025<sup>17</sup> contract vehicle in 2015 contributed to the decreased use of SE2020.

<sup>17</sup> According to FAA officials, the Agency awarded 10 SE2025 task orders in 2015 and 29 in 2016. The cost ceiling for SE2025 is \$768 million.

Based on our analysis of FAA data, the Agency’s budget reductions and the transfer of some work from SE2020 to SE2025 explains some of the gap in expected use. However, it does not account for the entire \$6 billion difference between FAA’s 2010 original \$7.1 billion estimate and its 2014 revised \$1.2 billion estimate for SE2020 (see figure 3).

Figure 3. Illustration of FAA’s Estimates for SE2020



Source: OIG analysis of FAA data

Based on our analysis, including our interviews with SE2020 program officials and customers, FAA’s high assessment fees and lengthy award times deterred potential customers from using the contract, contributing to the gap between expected and actual use of this significant contract vehicle. Moreover, FAA’s initial estimation of the SE2020 contract’s use may have occurred in part because AMS lacks specific policy or guidance for multiple-award contract planning, such as estimating contract hours and costs and overall contract estimates.

Ultimately, underuse of the SE2020 vehicle is of concern because it means FAA may have missed out on maximizing the benefits it expected to achieve with the large multiple-award, multiple vendor SE2020 program. FAA had originally anticipated the SE2020 multiple-award contract would provide benefits such as (1) fewer procurement vehicles, which would result in a reduction in contract management and administration costs, and (2) the immediate availability of expertise at the highest level to meet FAA’s mission needs. However, since many customers opted not to use the SE2020 vehicle, FAA has been unable to achieve the full purpose and potential of the SE2020 program.

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# FAA's Actions for Overseeing and Managing SE2020 Limited Its Ability To Fully Achieve Its Mission

Weaknesses in FAA's oversight and management also hindered the Agency's ability to meet SE2020's goals. For example, FAA's SE2020 payment processes lacked sufficient oversight, causing delays in making invoice payments and recouping overpayments. In addition, FAA has experienced delays with receiving required incurred cost audits and has not adequately overseen vendor performance. Moreover, SE2020 did not establish effective program management plans. Finally, FAA lacks an oversight framework to manage multiple-award vehicles like the SE2020 program, which contributed to its challenges in overseeing the program.

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## FAA's SE2020 Payment Processes Lacked Sufficient Oversight

FAA did not sufficiently oversee and manage its SE2020 payment processes, resulting in delays in making payments and recouping overpayments. We identified a number of concerns in this area, as detailed below.

### **FAA's SE2020 Invoice-Review Processes Did Not Ensure Prompt Payments**

FAA did not make prompt payments on all SE2020 invoices. The Prompt Payment Act<sup>18</sup> requires FAA to pay invoices no later than 30 days after invoices or deliverables are received and to establish policies and procedures to ensure timely invoice payments. After 30 days, interest penalties are due. However, in fiscal years 2010 to 2016, FAA paid 762 of 7,035 (11 percent) SE2020 invoices late, costing the Agency \$33,941 in interest penalties. In comparison, FAA paid only 1 percent of its overall total Agency invoices late during the same period.

These late SE2020 payments occurred in part because the SE2020 program's invoicing process differed from FAA's Agency requirements for invoice processing. Typically, under FAA's process, an invoice is approved for payment and forwarded to accounts payable after it has been accepted by two points—the COR and contracting officer (CO). However, the SE2020 program's process

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<sup>18</sup> 31 U.S.C. Chapter 39.

involved invoice review at four points<sup>19</sup> before it was forwarded to accounts payable.

Since 2014, the SE2020 program office has taken steps to improve invoice payment processing. For example, in 2014, it implemented an Invoice Dashboard in its electronic document storage system to track invoice-review steps. In April 2016, its Program Manager began reviewing monthly reports from the Invoice Dashboard to monitor average invoice approval times. However, based on our analysis of FAA data, of the 762 invoices that the SE2020 program paid late, 573 (75 percent) occurred after SE2020 implemented steps to improve its review processes. Thus, under the current processes, there remains a risk that FAA may pay future invoices late and incur up to an estimated \$44,000<sup>20</sup> in additional interest penalties.

### **FAA Experienced Delays in Recouping Interim Fixed-Fee Overpayments**

The SE2020 program made interim fixed-fee payments to vendors that exceeded final fees by almost \$2 million, and FAA experienced delays in recouping all of the overpaid fees. As we reported in 2012, the SE2020 program allows for cost plus fixed-fee task orders wherein FAA reimburses the contractor for allowable incurred costs plus a fee (or profit). In addition, for the initial SE2020 base contracts, FAA allowed interim fee payments<sup>21</sup> to be made periodically through the performance period of these task orders, which were calculated based on a percentage of the task order's estimated costs. However, in our 2012 report, we found that FAA had initially overstated the contracts' ceilings, and the vendors' actual billed rates were higher than those proposed in the base contract. As a result, we recommended that FAA amend the SE2020 contracts and adjust fixed fees to reflect revised contract costs and revised estimated labor hours needed, which would help FAA reduce or eliminate any fee overpayments.

In response, FAA created a fixed-fee reconciliation action plan, which included steps to reconcile, track, and recoup the overpayments. Based on our finding, FAA determined that it had overpaid vendor fixed fees by nearly \$2 million. FAA alerted the vendors of fee overpayments in 2013, and leveraged our recommendation in this area to request that vendors agree to more frequent fee reconciliation. Despite these actions, FAA did not start to recoup these

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<sup>19</sup> The SE2020 program's four-level invoice reviews included checks by its (1) contracted support, (2) technical officer representative (TOR), (3) COR, and (4) CO before the invoice went to accounts payable for payment processing. The SE2020 program office eliminated contractor support team reviews in October 2016 to improve business processes.

<sup>20</sup> Between 2010 and 2016, the SE2020 invoices paid a total of \$504 million, using the rate of late payments during this timeframe we are estimating the amount that may be paid late for the remaining \$659 million of the contract ceiling.

<sup>21</sup> An interim payment is a form of contract financing for cost-reimbursement contracts where a contractor is paid periodically during the course of a contract for allowable costs it incurs in the performance of the contract.

overpayments until 2015. According to FAA, it was not able to start recouping these funds earlier because vendors who owed fee adjustments would not agree to change the contract’s terms and conditions until after the first base period had ended in 2015. Since 2015 FAA made progress recouping overpayments. However, FAA did not complete recoupment of all overpayments until November 2017 (see table 5).

Table 5. FAA Delays in Recovering Overpayments

Vendor	Fee Overpaid by FAA	Status	Number of Years From Initial OIG Recommendation to FAA’s Recovery of Overpayments
Booz Allen Hamilton	\$1,459,711	Fully recouped in June 2015	3 years
General Dynamics	\$71,681	Fully recouped in May 2016	4 years
Metron	\$32,853	Fully recouped in February 2017	5 years
Harris (Exelis)	\$320,247	Fully recouped in November 2017	5.5 years

Source: OIG analysis of FAA information

Although FAA has recouped its fixed-fee overpayments, AMS lacks specific policy or guidance for the Agency’s multiple-award contracts to describe the appropriate structure for interim fee payments in cost plus fixed-fee contracts. And we note that these overpayments could have been prevented with a different fee payment structure so that its later fee adjustments would not have been required.

## FAA Has Experienced Delays With Required Incurred Cost Audits

Direct and indirect cost audits of Government contracts are essential for identifying unallowable costs, closing contracts in a timely manner, and managing contract funds. FAA’s AMS requires COs to request pre- and post-award audits on all cost-reimbursement contracts exceeding \$100 million and on at least 15 percent of those unlikely to exceed that amount. Incurred cost

audits<sup>22</sup> are FAA’s preferred tool for helping COs guarantee that valid indirect rates and allowable direct costs have been billed under cost-reimbursement contracts. The Defense Contract Audit Agency (DCAA) performs audits of contractors of Federal agencies, including FAA. When these audits are not obtained, COs still need to ensure that only allowable costs are paid. However, FAA has experienced delays in obtaining required incurred cost audits. Table 6 presents the status of DCAA’s audits for SE2020. According to FAA officials responsible for arranging these DCAA audits, for those vendors whose audits were not obtained because the amounts were too low, risk assessments were performed but not documented.

Table 6. FAA’s Reported Status of DCAA’s Audits of SE2020 Vendors for Prior Fiscal Years (2010 through 2015)

Vendor	2010	2011	2012	2013	2014	2015
Boeing	No audit <sup>a</sup>	Completed	In progress	Planned	Planned	Not yet planned
Engility (TASC)	N/a <sup>b</sup>	Completed	In progress	Planned <sup>c</sup>	Not yet planned	Not yet planned
CSSI	Completed	Completed	Completed	Completed	Planned <sup>d</sup>	Not yet planned
Harris (Exelis)	Not yet planned	Not yet planned	Planned	Planned	Not yet planned	Not yet planned
General Dynamics <sup>e</sup>	No audit	No audit	No audit	No audit	No audit	No audit
Metron	Completed	Completed	Completed	Completed	Completed	Completed
Booz Allen Hamilton	Completed	Completed	In progress	In progress	Planned	Planned

<sup>a</sup> According to DCAA, the dollar amount was too low for a reimbursable request.

<sup>b</sup> No audit required in 2010, as contract was awarded in 2011.

<sup>c</sup> FAA will initiate 2013 audit upon completion of 2012 audit.

<sup>d</sup> Audit to be initiated in 2018.

<sup>e</sup> For audits during 2010 through 2015, FAA has not been contacted for participation due to the low dollar amount of the contract’s incurred costs.

Source: OIG analysis of FAA information

When FAA’s CFO approved the SE2020 program, the CFO required annual incurred cost audits for all SE2020 contracts. The SE2020 program office committed to obtaining DCAA audits of vendor rates and annual incurred cost audits. However, FAA has faced challenges in following through with this

<sup>22</sup> An incurred cost audit is conducted to examine a contractor’s cost representations and to determine whether such costs are allocable, allowable, and reasonable.

commitment. In fact, during our review, FAA told us it should not have agreed to obtain all incurred cost audits for SE2020 contracts because it does not have authority or control over this process.<sup>23</sup> Historically DCAA provided audit support services for civilian agency contracts and contractors. However, according to DCAA, due to its focus on defense-related audits in the 2000s, by 2011, a backlog of its contractor audit workload occurred.<sup>24</sup> According to FAA, this backlog affected its ability to obtain timely incurred cost audits. On September 30, 2016, DCAA issued a memorandum announcing it would resume performing audits for civilian agencies.

FAA officials also told us that FAA is not contacted by DCAA for participation in such audits if costs incurred are too low. For example, FAA did not obtain DCAA audits for three of six vendors that required an audit in fiscal year 2010 because costs incurred were not significant enough for audits in those years. FAA explained that the Agency reviews its contract list annually to determine which need to be audited based on AMS policy and guidance. When contracts are under \$100 million, FAA uses risk assessments to determine whether or not to participate in an incurred cost audit for a particular year. For example, FAA has not requested to participate in an audit of one of its SE2020 vendors, General Dynamics, because the dollar amounts were too low to merit an audit (less than \$4 million in cost reimbursable amounts). Instead, FAA stated it performed an assessment of the dollars at risk if an audit were not obtained for any reason. However, FAA officials told us they do not document such risk assessments.

AMS lacks specific policy or guidance on obtaining direct and indirect cost audits for multiple-award contracts and carrying out risk assessments when audits are not obtained. Risk assessments can reduce the likelihood that the Agency does not overpay for direct costs and indirect rates when annual audits are not obtained. However, FAA officials told us that the direct costs of the SE2020 contractors were not audited because a direct cost review is the primary responsibility of the program and contracting offices, and these offices are responsible for conducting direct cost reviews and may request an audit of direct costs through FAA's commercial audit contract. However, according to FAA officials responsible for arranging DCAA audits, no requests for direct cost audits were received from the SE2020 program and contracting offices.

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<sup>23</sup> FAA stated other reasons outside of its control as to why audits were not completed timely or why it did not pursue other sources, such as commercial vendors, to obtain the annual incurred cost audits, including: (1) the National Defense Authorization Act of 2016 prohibited DCAA from providing audit support to all civilian agencies, and (2) the AMS and FAR prohibit FAA from initiating duplicative review of vendors' rates if another agency (e.g., DCAA) is responsible for obtaining the review.

<sup>24</sup> The Director of DCAA provided this information during testimony on April 6, 2017, before the House Armed Services Subcommittee on Oversight and Investigations.

Moreover, DOT's Transportation Acquisition Manual (TAM), used by other DOT agencies,<sup>25</sup> provides steps that could be taken to ensure direct and indirect costs paid in a cost-reimbursement contract are allowable. These steps include obtaining incurred cost audits by a contractor's responsible audit agency or documenting in the contract file why an audit was not obtained. According to the TAM, if such audit is not obtained, the CO should document, as a minimum, the reasons why it was not obtained (i.e., low dollar value of the contracts), the extent of the analysis performed to justify not obtaining the audit (i.e., a desk analysis or a comparison of proposed direct costs and indirect rates to incurred direct costs and actual indirect rates), and any other factors affecting the CO's decision and mitigation of risk.

According to FAA, due to DCAA's audit backlog, it is currently completing audits of SE2020 contractors for prior years (see table 6). Timely incurred cost audits are important to ensure that claimed contractor costs are accurate and allowable—in other words, to ensure that FAA has received the appropriate goods and services at the agreed-upon price. When audits are delayed, FAA may miss contractor overcharges and lose opportunities to recover questioned contract costs and resolve discrepancies.

Despite AMS's requirement for incurred cost audits and SE2020's agreement with the CFO to receive these audits, CFO office officials informed us that they were not aware that SE2020's required annual incurred cost audits were delayed.

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## **FAA Does Not Adequately Oversee Vendor Performance Through Its Performance-Based Contract Monitoring System**

Federal acquisition policy and regulations emphasize the need for sound oversight to ensure that contractors meet cost, schedule, and performance goals. FAA's Contracting Officer's Representative Handbook also requires the COR to monitor contractor cost and performance in writing. According to AMS, for cost-reimbursable contracts, appropriate FAA surveillance during performance will provide reasonable assurance that efficient methods and effective cost controls are used. In July 2012, in response to our 2012 audit, the SE2020 program office began requiring performance-based contract management principles to be used in all new task orders and implemented a Performance-Based Contract Monitoring (PBCM) tool to track SE2020 vendor performance. Technical Officer

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<sup>25</sup> FAA does not follow DOT's TAM and instead uses its AMS.

Representatives (TOR)<sup>26</sup> are required to use the PBCM tool and score vendor performance quarterly against the FAA's standardized Quality Assurance Surveillance Plan.

However, TORs have not sufficiently documented their oversight of SE2020 vendor performance. We found a low number of completed PBCM reports and a lack of supporting narrative in the reports actually submitted. Specifically, for the 40 task orders we reviewed, only 91 of 297 of the required PBCM reports were completed. Moreover, because SE2020 requires TORs to provide rationales for their rating only when the contractor's performance does not meet the Acceptable Quality Level, of the 91 completed PBCM reports, only 3 included details that supported the TORs' conclusions, resulting in limited performance data collected on SE2020 vendors. The PBCM reports include a matrix to be used to evaluate vendors' performance. TORs can select either "yes" or "no" to answer the question "Did Contractor meet or exceed the Acceptable Quality Level?" for each performance factor. In contrast, the Government-wide Contractor Performance Assessment Reporting System (CPAR) requires more narrative on contractor performance.<sup>27</sup>

Although the current SE2020 Program Manager has emphasized the need for TORs to complete PBCM reports, and sends emails to FAA customers to reinforce this requirement, the submission rate remains low. TORs told us they were unaware of how frequently they were to complete the required PBCM reports and often waited for the COR to request them. TORs also said they did not think completing the PBCM reports would make a difference because they are familiar with the vendor's work. However, the systematic and timely evaluation of relevant information on SE2020 vendors' performance is critical to FAA's ability to ensure contractors deliver results effectively and efficiently and to maintain an institutional record of such performance. Because TORs do not adequately track and document contractor performance, FAA lacks information it could use to monitor and improve vendor performance under current SE2020 task orders and which also could be used to inform the award of future task orders.

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<sup>26</sup> TORs represent the SE2020 customer. Their overall responsibilities include providing technical guidance to the contractor regarding the task requirements specified in the contract and ensuring that the contractor performs in accordance with the terms and conditions of the contract awarded under SE2020.

<sup>27</sup> The purpose of the CPARS is to ensure current and accurate contractor past performance data are available to use in source selections. Since April 2013, AMS requires FAA acquisition staff to use CPARS for contracts over \$5 million; however, SE2020 contracts were grandfathered out of using CPARS. According to the SE2020 program manager, SE2020 began using CPARS in fiscal year 2017 and CPARS will replace SE2020's PBCM reports.

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## SE2020 Lacks Effective Program Management Plans

FAA's oversight and management of SE2020 has also been hindered by a lack of effective program management plans. Under Office of Management and Budget guidelines and Government best practices, current management plans and controls are a foundation of organizational success. According to the FAA CFO's approval document for the SE2020 contracts, the SE2020 program office was required to establish a program management structure. In response to this requirement, in 2010, the SE2020 program office developed a Program Management Plan (PMP) to serve as the SE2020 program's comprehensive governance and management plan. FAA also committed to updating the plan annually. The PMP provided guidance for the SE2020 program, including describing contract management and delivery of services; defining the roles and responsibilities of SE2020 program managers and stakeholders; and outlining the objectives, direction, and procedures for the program.

However, according to program officials, the Agency did not use the PMP because they did not finalize or update the PMP as intended and were not aware of the CFO requirement to have a PMP. As a result, SE2020 program's activities were left without a cohesive plan to consistently execute and manage activities.

Given FAA's lack of an updated program management plan, the documentation and communication of its required processes is critical. This is especially the case in light of the fact that SE2020 experienced frequent turnover among its program and contracting staff. For example, the SE2020 program office has had seven different program managers since 2010. Strong communication and documentation of program management plans can help smooth transitions during times of staff turnover. However, the SE2020 program office primarily communicates its processes for key functions—such as task order awards, oversight of contractor performance, and résumé and invoice reviews—through PowerPoint training tools. FAA did develop some standard operating procedures, but these procedures were incomplete and not centrally accessible. As a result, TORs and COs that do not reside in the SE2020 program office relied on SE2020 program office staff to communicate processes and procedures, and told us they were often uncertain about the impact of program changes on their roles and responsibilities. SE2020 officials acknowledged that the PMP was not fully utilized and added that they plan to evaluate existing processes for areas of improvement.

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## FAA Lacks a Specific Oversight Framework To Manage Multiple-Award Vehicles Such as SE2020

FAA lacks a framework suited to provide effective oversight of SE2020 as a whole, further limiting its ability to ensure that SE2020 meets its program mission. In particular, FAA does not have a dedicated oversight mechanism (e.g., a governing board) for SE2020. FAA also lacks relevant AMS policies for managing a program of SE2020's type, size, and scale. As a high-dollar, multiple-award contract, SE2020 presents unique management challenges due to its scale and organizational structure. While FAA's AMS may address stages of awarding an SE2020 multiple-award contract or task order, generally, AMS lacks specific policy to manage large multiple-award vehicles. In contrast, the Government-wide FAR has specific requirements for multiple-award contracts, and other agencies also have specific implementation practices tailored for the implementation of these types of programs. For example, the General Services Administration and Department of Energy (DOE) have specific guidance for the award, ongoing management, and oversight of multiple-award contracts. DOE's guidance addresses topics such as requirements for multiple-award contracts and the benefits of using a multiple-award vehicle.

Moreover, our past audits have identified oversight gaps in multiple-award contracts and recommended FAA take steps to implement additional procedures and controls to improve oversight. These past audits include FAA's \$543 million RESULTS multiple-award program as well as its \$7.4 billion eFAST program.<sup>28</sup> Ultimately, FAA's lack of a specific policy on managing multiple-award contracts such as SE2020 hinders the Agency's efforts to effectively provide oversight and meet its program goals.

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<sup>28</sup> In a 2006 audit of FAA's RESULTS multiple-award program, we reported that an inappropriate program design prevented the Agency from meeting its goal of faster, better, and cheaper acquisition of support services. As a result, FAA paid higher costs than reasonable for support services and could not be sure of the quality of services provided. In addition, in a 2017 audit of eFAST, we found that FAA did not (1) apply an AMS requirement to verify prospective contractor eligibility, (2) document oversight plans, (3) have adequate acceptance criteria, and (4) have sufficient evidence of actual oversight.

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## Conclusion

FAA's historical reliance on support services contracts is likely to continue in the future. When managed effectively, multiple-award contracts such as FAA's \$1.2 billion SE2020 program can provide more cost efficient and faster acquisition of services for the Agency. However, both our 2012 audit of FAA's SE2020 contracts and our current audit highlight that FAA faces ongoing challenges in managing such contracts. As a result, FAA has not been able to meet its SE2020 mission goals, best serve its customers, and leverage its buying power to achieve the best value for FAA. Future high-dollar FAA multiple-award contracts may face similar challenges to providing fast, efficient, and cost-effective services.

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## Recommendations

To improve its award, management, and oversight of the SE2020 program and other multiple-award contract vehicles, we recommend that the Federal Aviation Administrator:

1. Revise AMS to include policy or guidance on justifying the use of program management task orders and a process for implementing assessment fees for multiple-award contracts.
2. Update SE2020's standard operating procedure for competition of SE2020 task orders, including strengthening procedures for follow-on awards.
3. Strengthen and document procedures to collect and analyze SE2020 task-order timeliness data to sustain improvements in task order award time.
4. Revise AMS to include policy or guidance for multiple-awards contracts to address acquisition planning, such as estimating contract hours and costs and overall contract estimates.
5. Strengthen, document, and implement controls for SE2020 invoice review to comply with the Prompt Payment Act. Implementation of this recommendation could put up to \$44,000 in funds to better use.
6. Revise AMS to include policy or guidance for multiple-award contracts to describe the appropriate structure for fee payments in cost plus fixed-fee contracts.

7. Obtain direct and indirect cost audits for all SE2020 prime contractors for all base contract years, or document the risk assessments performed to justify when cost audits are not performed.
8. Revise AMS to include policy or guidance for obtaining direct and indirect cost audits for multiple-award cost-reimbursable contracts or to perform risk assessments to justify not obtaining them.
9. Enhance procedures and controls to require SE2020 staff with responsibility for oversight of task orders to track and document vendor performance through its Performance-Based Contract Monitoring (PBCM) system.
10. Revise AMS to require FAA's acquisition program office that manages multiple-award contract vehicles to develop and maintain comprehensive program management and governance plans.
11. Revise AMS to strengthen multiple-award contract oversight and management framework to ensure such multiple-award contracts follow sound business practices and AMS policies and procedures.

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## Agency Comments and Office of Inspector General Response

We provided FAA with our draft report on December 20, 2017. We received FAA's response on January 29, 2018, which is included as an appendix to this report. FAA concurred with our 11 recommendations as written and provided appropriate completion dates.

The Agency's response also cites several recent program improvements that were not noted in our report. However, the scope of our audit covered FAA's task order activity and program performance from October 1, 2012, through June 29, 2016. As a result, while the Agency's recently stated actions may represent welcome and needed improvements for the SE2020 program, we were unable to validate them as part of our review.

FAA also states that we only made passing reference and significantly underestimated the impact of SE2025 on overall utilization rates. However, we accounted for and referenced the impact of SE2025 task orders in our report several times, as shown in the following examples:

- We included the total number of SE2025 task orders FAA awarded in the scope of our audit and the awarded SE2025 ceiling. We also discussed and

depicted (in figure 2) the SE2025 task order awards in our report (pages 14 and 15).

- We depicted in figure 3 the total awarded ceiling of the SE2025 vehicle in our calculation of the gap between SE2020's original and revised estimates, which FAA partially attributed to the transfer of some work from SE2020 to SE2025.

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## Actions Required

We recognize and commend FAA's stated actions taken after the completion of our audit and its concurrence with our recommendations. We consider all 11 recommendations resolved but open pending completion of the planned actions.

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## Exhibit A. Scope and Methodology

We conducted this performance audit from April 2016 through December 2017 in accordance with generally accepted Government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

Our audit objectives were to assess whether FAA's actions for (1) awarding task orders and (2) overseeing the SE2020 acquisition program were sufficient to meet its program mission. The scope of our audit included FAA's SE2020 program, contracting office, and the Agency's programs that use the SE2020 task orders. As part of this scope we reviewed SE2020 contract task orders awarded between October 1, 2012, and June 29, 2016.

To address our audit objectives, we evaluated FAA's SE2020 program, FAA's contracting office, and FAA programs that use the SE2020 task orders. Specifically, we reviewed FAA's and SE2020's program office's policies, guidance, procedures, and program goals and compared them to performance data we obtained on the SE2020 program from fiscal years 2010 to 2016.

To select a sample of SE2020 task orders to review to address our audit objective we obtained a list of 499 SE2020 contract actions issued between October 1, 2012, and June 29, 2016, from FAA's automated procurement system, called PRISM. Our statistician aggregated the 499 contract actions by contract and task order number into a universe of 88 task orders with an estimated total amount of \$187.3 million. From this universe we selected a statistical sample of 40 task orders with an estimated total amount of \$135.8 million (73 percent of our universe). We used this sample to validate the accuracy and completeness of the PRISM listing and found the data sufficiently reliable for the purpose of this audit. For the 40 task orders we obtained and reviewed contract files to assess award and competition practices. To determine FAA's competition rate of awarded task orders we reviewed task orders awarded from fiscal year 2013 to June 29, 2016. We removed Program Management Task Orders and directed Small Business task orders where the incumbent was a small business, as we considered those task orders not eligible for competition. Since FAA did not initially plan to award task orders competitively, we did not perform an analysis on task orders awarded from fiscal year 2010 to fiscal year 2012 to determine how many were eligible for competition.

We reviewed a sample of 20 paid invoices selected randomly from our statistical sample of 40 task orders which included 728 paid invoices to determine the adequacy of the SE2020 program's invoice payment process and timeliness. We then obtained from FAA's Accounts Payable personnel the number in the universe of SE2020 invoices—there were 7,035 invoices paid between 2010 and 2016 and of those, 762 invoices were paid late—and from this analysis we calculated potential future late payments that amounted to \$44,000 that could be put to better use.

Additionally, we obtained SE2020 task order award timeliness data from the SE2020 program office to evaluate award processing times throughout the life of SE2020. In cases where the program office believed there were circumstances outside of its control that extended the award times, it provided information on the number weeks and reasons for the delay. We reviewed this information on a case by case basis to determine how many weeks were reasonably outside of the program office's control. There were a total of 31 cases, and we determined award times for each task order and incorporated them into the universe of task orders awarded to calculate task order award timeliness averages.

As part of this audit we also reviewed our 2012 SE2020 audit report<sup>29</sup> and FAA's action plan to respond to our recommendations regarding fixed-fee reconciliation with SE2020 vendors.<sup>30</sup>

We also interviewed SE2020 program and contracting personnel, FAA Acquisition officials, and FAA program offices to obtain their insights and relevant documentation at FAA's Headquarters in Washington, DC, and its William J. Hughes Technical Center in Atlantic City, NJ. In addition, we interviewed SE2020 program office staff and Accounts Payable personnel to collect data and gain their perspectives on the agency's invoice payment processes.

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<sup>29</sup> *FAA's Contracting Practices are Insufficient To Effectively Manage its Systems Engineering 2020 Contracts* (OIG Report No. ZA2012082), March 28, 2012.

<sup>30</sup> On May 1, 2012, FAA submitted a Reconsidered Response to the Audit: *FAA's Contracting Practices Are Insufficient To Effectively Manage its Systems Engineering 2020 Contracts* (OIG Report No. ZA2012082), March 28, 2012. This response included FAA's plan to respond to OIG's recommendations.

## Exhibit B. Status of Open Recommendations in OIG's 2012 Audit Report on SE2020

Open Recommendation	FAA's Original Target Date to Close <sup>a</sup>	Risk/OIG Concerns
<p>No. 5 to FAA That FAA's Vice President of Business and Acquisition Services require the SE-2020 program office to (a) develop policies and procedures to ensure timely reconciliations and corrections to acquisition databases and (b) revise its cost monitoring spreadsheets to ensure accurate data for effective cost control of SE-2020 contracts.</p>	<p>March 31, 2012</p>	<p>Without effective cost monitoring tools in place, FAA risks understating task order values and identifying potential errors in cost.</p>
<p>No. 7 to FAA That FAA's Vice President of Business and Acquisition Services require FAA's contracting and program staff to use performance-based acquisition principles in their SE-2020 task orders and ensure staff is adequately trained to develop and monitor such awards.</p>	<p>January 31, 2012</p>	<p>Without implementation of performance-based acquisition principles, FAA risks ensuring task orders provide quality results.</p>
<p>No. 9 to FAA That FAA's Vice President of Business and Acquisition Services revise AMS to include guidance on how to identify and mitigate risks of potential OCIs prior to contract or task order award.</p>	<p>September 30, 2013</p>	<p>Without adequate tools and techniques to implement its AMS guidance and support the identification of OCIs, FAA risks not being able to verify whether contractors' past work could potentially impair objectivity.</p>

<sup>a</sup> On January 24, 2018, FAA requested the target date to close each of these recommendations be moved to April 30, 2018, and OIG agreed.

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## Exhibit C. List of Acronyms

AMS	Acquisition Management System
CFO	Chief Financial Officer
CO	contracting officer
COR	contracting officer representatives
CPARS	Contractor Performance Assessment Reporting System
DCAA	Defense Contract Audit Agency
DOE	Department of Energy
eFAST	Electronic Federal Aviation Administration Accelerated and Simplified Tasks
FAA	Federal Aviation Administration
FAR	Federal Acquisition Regulation
IGCE	Independent Government Cost Estimate
NextGen	Next Generation Air Transportation System
OIG	Office of Inspector General
PBCM	Performance-Based Contract Monitoring System
PMP	program management plan
RMA	research and mission analysis
SE	systems engineering
SE2020	Systems Engineering 2020
SE2020 contracting office	SE-2020/SE-2025 Contracting Branch
SE2020 program office	Systems Engineering Contracts Branch
SE2025	Systems Engineering 2025
SOW	statement of work
TET	technical evaluation team
TOR	technical officer representative

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## Exhibit D. Major Contributors to This Report

TONY WYSOCKI	PROGRAM DIRECTOR
RACHEL ALDERMAN	PROGRAM DIRECTOR
HEIDI BROEKEMEIER	PROJECT MANAGER
SAWDIATOU BA	ANALYST
MONICA PHUNG	ANALYST
ADRIAN VALENZUELA	ANALYST
TERRY LETKO	SUPERVISORY AUDITOR
JIM QUINN	SENIOR ANALYST
AMY BERKS	SENIOR COUNSEL
AUDRE AZUOLAS	SENIOR TECHNICAL WRITER
TOM DENOMME	PROJECT CONSULTANT
CHRISTINA LEE	VISUAL COMMUNICATIONS SPECIALIST
PETRA SWARTZLANDER	SENIOR STATISTICIAN
MAKESI ORMOND	STATISTICIAN

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## Appendix. Agency Comments



# Federal Aviation Administration

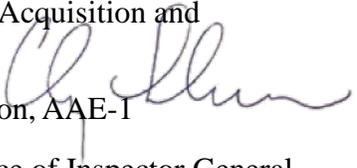
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## Memorandum

Date: January 29, 2018

To: Mary Kay Langan-Feirson, Assistant Inspector General for Acquisition and Procurement Audits

From: H. Clayton Foushee, Director, Office of Audit and Evaluation, AAE-1 

Subject: Federal Aviation Administration's (FAA) Response to Office of Inspector General (OIG) Draft Report: FAA's Award and Oversight of SE2020 Acquisition Program Task Orders Are Not Sufficient to Meet Its Program Mission

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Since the award of the Systems Engineering 2020 (SE2020) contracts in 2010, the FAA has continuously made improvements in the management, oversight, administration of the base contracts and task orders, as well as the process used to make task order awards. The SE2020 vendors' program management task orders and the five percent assessment fee have been discontinued, and the base contract fixed fee payment clauses were modified so that future fixed fee reconciliations will not be required. The agency has met task order award timeliness goals since 2014, reduced invoice interest payments, achieved an increase in the Performance Based Contracting Monitoring (PBCM) System report submission rate, and increased the competition percentage rate.

The FAA has achieved significant benefits through the award and utilization of these contracts, which provide customers a standardized platform to quickly and efficiently access industry expertise to meet FAA's mission needs, while reducing contract administration and procurement costs. The OIG draft report significantly underestimates the reported contract utilization data by failing to fully account for the award of the SE2025 small business contracts since 2015.

The agency disputes the OIG's conclusion that the FAA has not been able to meet SE2020 mission goals, best serve its customers, and leverage its buying power to achieve the best value for the FAA. Moreover, we do not concur with many of the statements in the draft report, such as:

- The OIG's assumption that FAA may not be able to sustain recent improvements to the task order competition rate. The draft report states that since 2013, we have increased task order competition rate from 5 to 68 percent, but the OIG neglects to mention that since June 30, 2016, the competition rate has been 100 percent.
- The OIG's audited PBCM report submission rate of 31 percent does not reflect the material improvement the FAA has realized during more recent reporting periods. The SE2020 program office has updated the process used to capture PBCM reports and over

the last three quarters of Fiscal Year (FY) 2017, the report submission rate has averaged 85 percent.

- While the audit report makes passing reference to the SE2025 small business contracts, the OIG’s failure to account for the task order awards made under these contracts underestimates overall contract utilization. The SE2025 small business contracts utilize the same statements of work and support the same customer base as the SE2020 large business contracts, thus any discussion on contract utilization should include the combined award ceiling made under both contract vehicles. The small business vehicle further enhances competition, provides access to innovative vendors, and helps support the FAA’s small business goals. During FYs 2016 and 2017 over \$487 million of new combined SE2020/2025 task order ceiling was awarded, which is the highest two-year total since the inception of the contracts in FY 2010.
- The FAA agrees that costs incurred for interest payments can be put to better use, but we contend that the OIG’s estimate of \$44,000 in “potential future late payments” is overestimated as a reduction in interest payments has been observed. During the first six months of FY 2017, \$3,646 in interest charges were realized, but no interest charges were incurred over the last six months of FY 2017. Annualizing the FY 2017 amount through FY 2020, results in an estimated additional interest charge of \$14,585. The FAA is confident that the recent reduction in interest payments can be maintained or improved as the SE2020 program office will continue to make additional enhancements to the oversight and processes involved with invoice payments.

Upon review of OIG’s draft report, we concur with the 11 recommendations and we plan to implement the recommendations as follows:

Recommendations	Target Date for Completion
2	5/31/2018
3	6/29/2018
5 and 7	7/31/2018
1, 4, 6, 8, 9, 10, and 11	8/31/2018

We appreciate the opportunity to respond to the OIG draft report. Please contact H. Clayton Foushee at (202) 267-9000 if you have any questions or require additional information about these comments.

# U.S. DOT IG Fraud & Safety Hotline

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