
Office of Inspector General

Audit Report

FAA MUST STRENGTHEN ITS COST AND PRICE ANALYSIS PROCESSES TO PREVENT OVERPAYING FOR NONCOMPETITIVE CONTRACTS

Federal Aviation Administration

Report Number: ZA-2011-089

Date Issued: May 19, 2011





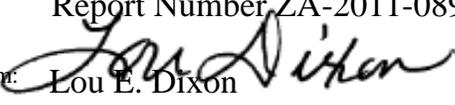
Memorandum

**U.S. Department of
Transportation**

Office of the Secretary
of Transportation
Office of Inspector General

Subject: **ACTION:** FAA Must Strengthen Its Cost and Price
Analysis Processes To Prevent Overpaying for
Noncompetitive Contracts
Federal Aviation Administration
Report Number ZA-2011-089

Date: May 19, 2011

From: 
Lou E. Dixon
Principal Assistant Inspector General
for Auditing and Evaluation

Reply to
Attn. of: JA-60

To: Federal Aviation Administrator

In fiscal year (FY) 2009, the Federal Aviation Administration (FAA) obligated over \$541 million for more than 16,500 noncompetitive contract actions.¹ FAA's Acquisition Management System (AMS) permits noncompetitive procurements when awarding new contracts if there is a well-documented rationale to support such a decision and if it is in the best interest of the Agency. To make this determination, AMS requires that FAA perform cost and price analyses to prevent overpaying for noncompetitive contract awards.² Given the significant number of FAA's noncompetitive contract actions, it is critical that the Agency use sound cost and price analysis methods to ensure it obtains goods and services at a reasonable price. However, our prior audits have found instances where FAA awarded noncompetitive contracts and orders without first determining price reasonableness.³

In October 2009, the Office of Management and Budget (OMB) responded to Presidential direction and issued instructions to Federal agencies on the use and oversight of high-risk contracts. These instructions emphasized ensuring price

¹ This includes awards for new contracts, modifications, and task orders.

² Price analysis is always required for noncompetitive (sole source) awards and involves examining and analyzing a proposed price using comparisons to other prices for the same or similar products without evaluating individual cost elements, such as direct labor, overhead, and profit, comprising the total price. Cost analysis is needed when price analysis alone cannot determine price reasonableness and involves a detailed review of individual cost elements and profit or fees.

³ OIG Report Number FI-2006-072, "Audit of the Federal Aviation Administration's RESULTS National Contracting Service," September 21, 2006, and OIG Report Number FI-2007-030, "Audit of Emergency Transportation Services Contract: Lessons Learned From the 2005 Gulf Coast Hurricanes," February 5, 2007. OIG reports are available on our website: www.oig.dot.gov.

reasonableness for noncompetitive awards and improving controls over the quality of contract award data entered into agencies' procurement systems.⁴ In support of the OMB directive, our audit objectives were to (1) determine the extent to which FAA procurement offices used sufficient price analysis methods for noncompetitive contract actions awarded within FAA and (2) assess FAA's ability to adequately account for its noncompetitive contract awards.

We reviewed a total of 25 randomly selected FAA contract awards out of a universe of 281 noncompetitive contract awards, with a potential maximum value of about \$44.8 million.⁵ We conducted this audit in accordance with generally accepted government auditing standards. Exhibit A details our scope and methodology.

RESULTS IN BRIEF

FAA did not perform effective cost and price analysis for 8 of the 25 contracts we reviewed (totaling about \$11.6 million). As a result, FAA was unable to demonstrate that prices paid were reasonable and may have overpaid for two contracts by about \$670,000. Specifically, FAA program offices and contracting officials either used inadequate methods to determine price reasonableness or did not do any price analysis. We determined that FAA contracting officials took shortcuts when planning acquisitions or lacked training on how to do price analysis. For example, FAA Headquarters awarded a contract for \$834,870 to continue programmatic support for the Automatic Detection and Processing Terminal program in September 2007, just before the end of the fiscal year. To meet the year-end deadline, the contracting specialist merely relied on the rates from the prior contract and did not determine whether the prior rates were reviewed for reasonableness or whether there were changes for the new contract requiring additional analysis. About \$303,000 of the new contract award involved rates for new labor categories that were never reviewed.⁶ We also found instances where contracting officials either used outdated pricing data or incomplete government cost estimates. As a result of these deficiencies, FAA had little assurance that contract prices were consistently fair and reasonable for the noncompetitive awards reviewed.

⁴ OMB, "Increasing Competition and Structuring Contracts for Best Results," October 27, 2009. OMB, "Improving Acquisition Data Quality for Fiscal Years 2009 and 2010," October 7, 2009.

⁵ We used 2 random samples and initially examined a total of 33 contracts. Our first sample of 23 contracts, awarded during the period December 2006 through March 2008, mostly included contracts awarded before new AMS pricing methodology guidance on completing independent government cost estimates—frequently used for completing price analysis—became effective. The second sample included 10 contracts awarded during the period April 2008 through December 2008, after the new guidance was implemented. However, of the 33 contracts, 2 were competitively awarded, and 6 represented other transaction agreements, which are exempt from price analyses. Therefore, we did not include these 8 contracts in our analysis, which narrowed our review sample down to 25.

⁶ The contracting specialist notified us that no review of current rates was performed.

In addition, FAA does not accurately account for its noncompetitive contract awards because it does not use a contract writing system, as required by OMB. These systems provide for immediate data verification to detect errors at the time of contract award and allow for direct electronic submission to the Federal Procurement Data System-Next Generation (FPDS-NG)—the Government’s database for tracking contracts across Federal agencies.⁷ FAA also lacks compensating management controls, such as validating data entry completeness and accuracy. In addition FAA uses its procurement system, the Purchase Request Information System (PRISM), to record new contract awards. However, we found that PRISM has a significant number of blank data fields where the extent of contract competition should be identified. For example, there were no entries for the extent of competition for 727 contracts with actions awarded in FY 2009, each valued at \$100,000 or more.⁸ Further, 13 contracts we reviewed were incorrectly recorded as “Not Competed” when they should have been recorded as either “Competed Action” or “Not Available for Competition.”

FAA has actions underway to implement a contract writing system. It is imperative that FAA complete this effort, so that FAA managers can rely on a database that allows them to properly oversee noncompetitive procurements. Further, without an effective contract writing system, it will be difficult to accurately track tax dollars spent on noncompetitive contracts for congressional and other Government stakeholders.

We discussed our audit findings with FAA in July 2010 and January 2011. As a result, FAA is now implementing corrective actions to improve its cost and price analysis process and to enhance the accuracy of its procurement data. Significant actions include revising the Pricing Handbook to incorporate our findings and other Federal agencies’ best practices and expanding FAA’s National Acquisition Evaluation Program (NAEP) coverage of the proper data entry for FPDS. A detailed summary of FAA’s planned and ongoing corrective actions is provided at Exhibit C. We are recommending further actions to improve FAA’s performance of price analysis to prevent overpaying for noncompetitive contract awards and enhance the Agency’s ability to account for contract award data.

BACKGROUND

FAA’s AMS recommends that contracting officials obtain adequate information to evaluate price reasonableness to prevent overpayments on noncompetitive contracts. Common price analysis techniques include comparing proposed prices

⁷ FPDS-NG is the Government’s database for agencies’ contracting data. Contract writing systems are software systems that allow agencies to report contract information electronically to OMB via the FPDS-NG. These systems include data input validation controls to detect blank data fields and entries requiring correction at time of contract award.

⁸ The blank “extent of competition” entries for the 727 contracts represented about 11 percent of 6,888 entries.

to prior prices that were competitively awarded or to published market prices and discount arrangements. Common cost analysis techniques involve evaluating the separate cost elements (e.g., direct labor, materials, and general and administrative costs) and profit or fee that constitute the contractor's price. Exhibit B provides further details on methods for completing price and cost analysis.

In October 2003, the General Services Administration (GSA) introduced FPDS-NG as the backbone system for Government agencies to provide contract award data to OMB. This allows the Government to understand where tax dollars are spent for contracts across Federal agencies. FPDS-NG was designed to enhance the quality and reliability of procurement data by allowing agencies to directly upload the data from their contract writing systems. To improve the completeness and accuracy of data in FPDS-NG, OMB directed agency and department heads to ensure they maintained contract writing systems that were capable of electronically transferring data directly to FPDS-NG no later than the end of FY 2005.⁹ Information entered into the contract writing system is highly accurate, since it represents the same data produced in the contract, including contract type, amount, funding, and extent of competition.

In FY 2007, FAA began utilizing FPDS, as directed by OMB, to provide a single, searchable website that includes specific details on each Federal award.¹⁰ However, rather than using a contract writing system capable of verifying data accuracy immediately and submitting data directly to FPDS-NG, FAA manually inputs data into PRISM, its procurement system, and subsequently enters the data into FPDS.¹¹

FAA'S PRICE ANALYSIS METHODS HINDERED ITS ABILITY TO ENSURE IT AWARDED CONTRACTS AT REASONABLE PRICES

While FAA completed sufficient price analysis for 17 of the 25 contract award actions we reviewed,¹² the remaining 8—totaling about \$11.6 million—either had incomplete or improperly completed price analyses to support price reasonableness. This was primarily because FAA did not provide needed training for its acquisition staff on how to conduct and document price analysis or plan

⁹ OMB Memorandum: "Timely and Accurate Procurement Data," August 25, 2004.

¹⁰ Government-wide award information on procurements, grants, and loans is reported on OMB's www.USASpending.gov website.

¹¹ PRISM is a browser-based purchasing management system that tracks all phases of procurement from requisition, obligation of funds, expenditure, and payment. PRISM is an off-the-shelf software that performs contract management functions and integrates with Delphi, DOT's financial management system, through an Oracle/Compusearch interface.

¹² Adequate price analysis methods FAA used included comparing proposed prices to those in competitive lists, such as GSA's Federal Supply Schedules; verifying materials costs, labor, and indirect rates; or comparing to reliable independent government cost estimates (IGCE). The Federal Supply Schedules Program establishes a streamlined approach to procuring long-term Government-wide contracts for commercial supplies and services. The schedules assure competitive prices but allows for negotiation of discounts.

adequate timelines for price analysis—a problem also found by FAA’s internal quality control reviews. We found that FAA personnel either used inadequate methods to determine price reasonableness, lacked sufficient documentation to support the price analysis technique used, or did not perform any price analysis. As a result, FAA was unable to demonstrate that prices paid were reasonable and may have overpaid for two contracts by \$669,126 (see table 1).

Table 1. Summary of Inadequate Price Analysis Methods

Methods of Cost or Price Analysis	Number of Contract Award Actions	Total Estimated Potential Value (in Dollars)	Amount Overpaid
Acceptance of prior prices without establishing their reasonableness	1	\$188,612	
Use of outdated/escalated prices without requesting additional data	1	\$232,415	
Significant costs and profits not analyzed	1	\$1,495,216	
Use of unreliable (incomplete or unsupported) IGCEs	1	\$314,500	
Incomplete or inaccurate comparison with GSA Federal Supply Schedule	1	\$113,270	\$11,568
Inadequate analysis of indirect rates and profit	1	\$7,632,366	\$657,558
None performed	2	\$1,576,585	
Totals	8	\$11,552,964	\$669,126

Source: OIG review of 25 contract files for randomly sampled noncompetitive contract awards.

*Amounts were rounded up.

Inadequate Workforce Training and Acquisition Planning Impeded FAA Officials’ Ability To Perform Effective Price Analysis

Of the 12 acquisition personnel responsible for the 8 contracts that had inadequate price analysis, only 2 had completed specialized training on performing cost and price analysis. We found a number of mistakes made on contract awards that demonstrate the need for additional price analysis training for FAA contract personnel and better acquisition planning. For example, in the case of the two overpayments shown in table 1:

- In March 2008, FAA awarded a contract for en route high and low altitude and area air traffic control charts, valued at approximately \$7.6 million. However, FAA officials at the Mike Monroney Aeronautical Center in Oklahoma City mistakenly awarded the contract with an excessive profit rate of 30 percent; therefore, FAA likely overpaid for the contract by \$657,558. This was due to an analyst's lack of training needed to review an indirect rate submission included in the contractor's cost proposal. Specifically, the contractor bid all of its indirect costs as part of a single overhead rate, including general and administrative (G&A) costs, which include executive salaries and administrative costs, such as accounting and legal. However, the FAA analyst did not identify that the various G&A costs were combined with overhead costs. As a result, the analyst mistakenly concluded that the contractor forgot to include G&A costs in its proposed price. Therefore, even though the analyst originally determined that a reasonable profit rate could range from 12.41 to 18.8 percent, he ultimately recommended that FAA award the contract with a profit rate of 30 percent to compensate the contractor for the G&A costs he thought had been left out of the proposed price. The analyst later stated he had no experience reviewing indirect costs and that in his prior job he had relied on other price analysts to do such analysis.
- In January 2008, FAA awarded a contract for an environmental assessment of the increased use of a crosswinds runway for \$113,000. FAA did not compare proposed rates to a competitive Government-wide schedule to verify whether the proposed rates were reasonable as claimed. Instead, FAA officials relied on an undocumented Independent Government Cost Estimate (IGCE) that was unsigned and not retained in the contract file. An FAA procurement specialist initially stated she completed the IGCE by comparing labor rates—similar to those eventually proposed—to competitive rates for the contractor that were published in the GSA Federal Supply Schedule. Ordinarily, this is an acceptable price analysis tool, assuming other sources of comparison were unavailable.¹³ However, our review found that the rates in the Federal Supply Schedule were 10 percent to 13 percent lower for each labor category. Using these rates, we calculated that FAA may have overpaid by about \$12,000. Additionally, FAA could have saved more if it had attempted to obtain discounts from the published blanket purchase agreement rates.¹⁴ The procurement specialist later admitted she never compared the labor rates to those in the GSA Federal Supply Schedule.

¹³ The Contract Pricing Reference Guides recommend using information gathered to make multiple comparisons in determining price reasonableness.

¹⁴ On December 22, 2009, the Administrator, Office of Federal Procurement Policy, OMB issued guidance that strongly urged agencies to aggressively seek discounts under blanket purchase agreements, such as the Federal Supply Schedules, which are specifically designed for agencies to negotiate better deals.

In another example from June 2007, FAA Headquarters awarded a bridge contract for information technology support services for approximately \$742,000. The contracting officer used rates from two existing bridge contracts without verifying whether they were reviewed for reasonableness. The contracting officer stated that he did not determine price reasonableness for this contract because he had just been assigned responsibility for administering the contract and was instructed to award the new contract within 1 week. Yet, FAA guidance states that acquisition planning is required for every contract award action of \$100,000 or more. Additionally, FAA's Pricing Handbook states that planning prior to beginning price analysis helps provide accurate price recommendations. Without reviewing proposed rates or verifying whether prior rates are reasonable, FAA is left with little assurance that contracts are awarded at the best value to the Agency. Moreover, our review of the prior contract for these services found that a review of its rates was never performed to determine reasonableness and that the rates were overpriced by about 16 percent compared to average rates for a similar contract administered by FAA.¹⁵

The Contract Pricing Reference Guides,¹⁶ used as a best resource for conducting price analysis throughout the Government, state that contract personnel should ensure that any prior prices or rates being relied upon were found to be fair and reasonable. The guide highlights that it is not uncommon to review the purchase history for an item or service only to find that there is no basis other than the last price paid to accept proposed amounts as reasonable. Therefore, contracting officials should not rely on prior contract rates when awarding successive bridge contracts without reviewing or ensuring that prices were evaluated for reasonableness. This demonstrates the need for improved acquisition planning so that acquisition officials have sufficient time to properly consider comparability factors, including passages of time and changes in markets and technology. This also shows that some FAA acquisition officials may lack knowledge on how to compare prices or may be unaware that prices can change dramatically over time.

We found other examples of ineffective price analysis methods among the awards for the eight contracts, including the following:

- **Procurement of 16 Moving Target Simulators.** FAA officials at the Mike Monroney Aeronautical Center in Oklahoma did not complete a cost analysis before awarding this contract in June 2007. Specifically, FAA did not review and document an analysis of the direct costs—such as labor rates and costs, material costs, and fees—which represented over \$729,000 (49 percent) of the \$1.5 million awarded. Instead, FAA limited its review to confirming the

¹⁵ The Broad Information Technology and Telecommunications Support Services II multiple award contract.

¹⁶ The five-volume Contract Pricing Reference Guides are (1) Price Analysis; (2) Quantitative Techniques for Contract Pricing; (3) Cost Analysis; (4) Advanced Issues in Contract Pricing; and (5) Federal Contract Negotiation Techniques.

reasonableness of proposed overhead and G&A rates,¹⁷ with the Defense Contract Audit Agency (DCAA).¹⁸

- **Streamlining Air Traffic Oversight System Data Collection Tools.** FAA Headquarters awarded a follow-on contract for management consulting services in September 2008 for \$189,000. However, the program manager used outdated contract rates from a prior contract awarded in 1999 (adjusted for escalation) without determining whether those rates had undergone adequate price analysis. While FAA’s AMS permits using rates from prior contract awards when the comparison is valid—that is, for similar items and quantities—AMS states that the contracting officer should consider whether pricing data are recent when deciding if more current data should be requested. Additionally, best practices in the Contract Pricing Reference Guides¹⁹ used by other Federal agencies caution that an effort to equate two prices separated by 5 years, through a simple inflation adjustment, may not be successful because too many characteristics of the market are likely to have changed. In this case, since the prior contract price was awarded 9 years ago, the program manager should have requested and reviewed recent sales or pricing data.

FAA Found That Acquisition Workforce Training Did Not Sufficiently Emphasize Cost and Price Analysis

Price analysis deficiencies were reported in FAA Headquarters’ NAEP reviews, as well as FAA’s Assistant Administrator’s Procurement Evaluation Program Reviews, which are internal quality control reviews of procurement and contract administration practices.²⁰ Similar to our aforementioned findings, FAA’s NAEP reviews reported that price analysis was inadequately completed due to insufficient training. Additionally, a strategic plan²¹ for the Department of Transportation’s acquisition workforce and a Department-wide analysis of core

¹⁷ Overhead rates ordinarily include costs incurred to support direct labor or direct materials and are allocated to multiple contracts over a common base, such as direct labor hours or costs. G&A rates include management, financial, and other costs that are allocated to all contracts for the general management within a business unit, typically on a base of total costs, excluding G&A.

¹⁸ The DCAA regularly audits financial submissions and accounting systems of government contractors. The FAR provides that contracting officers may request audit services directly from the responsible audit agency cited in the Directory of Federal Contract Audit Offices, which are primarily comprised of DCAA resident and field offices. Using DCAA audits to verify proposed rates is considered a technique for completing cost analysis (see exhibit B for more techniques).

¹⁹ The Contract Pricing Reference Guides (developed by the Air Force Institute of Technology and Federal Acquisition Institute), are used as a best resource for conducting price analysis throughout the Government.

²⁰ “National Acquisition Evaluation Program (NAEP) Procurement Evaluation Review,” FY 2009 Report for Mike Monroney Aeronautical Center (MMAC); “FY 2008 Procurement Review Summary Report and Action Response,” NAEP, FAA, dated March 31, 2009; “Procurement Evaluation Program Reviews of the Western-Pacific (AWP), Central (ACE), and Alaska (AAL) Regional Offices,” dated August 15, 2007; and “Procurement Evaluation Program Reviews of the New England (ANE), Great Lakes (AGL), and Northwest Mountain (ANM) Regional Offices,” dated December 19, 2006.

²¹ “Strategic Acquisition Workforce Succession Plan,” Department of Transportation, February 2009.

competencies²² concluded that the ability to review contractors' proposals was among those core competencies in most need of improvement.

In October 2008, the NAEP augmented its annual plan to include expanded review elements for price analysis and data entry into the Federal Procurement Data System (FPDS). Beginning in October 2009, the NAEP assumed responsibility of FPDS oversight for FAA including reporting agency compliance to OMB. During FY 2011 the NAEP plans to conduct detailed reviews of contract awards at FAA Headquarters and three regions.

We met with FAA acquisition executives and managers on July 7, 2009, and August 20, 2009, and informed them of the need to implement training on price analysis. As a result of these meetings, FAA contracted to obtain a price analysis course and has begun providing the training to all contracting officers and other acquisition workforce staff managers involved with evaluating cost proposals and preparing IGCEs. Also, at the FAA National Procurement Training Conference in November 2009, FAA acquisition specialists provided training to senior contracting and acquisition specialists on price analysis areas such as conducting proposal analysis, performing procurement planning, and using commercial escalation forecasts.

FAA DID NOT IDENTIFY ITS NONCOMPETITIVE CONTRACTS DUE TO INCOMPLETE AND INACCURATE DATA SYSTEMS

FAA is limited in its ability to identify high-risk and noncompetitive contracts because it does not have an effective contract writing system as required by OMB. On July 29, 2009, OMB required Federal agencies to identify high-risk contracts, including noncompetitive ones, and reduce the amount obligated for new awards for these types of contracts by 10 percent in 2010. OMB also outlined steps agencies should take to improve data quality, focusing on agencies' internal data entry and control procedures. However, it is difficult for FAA to comply with these guidelines because it still does not use a contract writing system that can interface directly with the Government's contract database, FPDS-NG, which would flag data entry errors at time of contract award. Rather, FAA uses PRISM as a feeder system to enter data into FPDS but does not require contracting officials to verify that critical data fields are completed when they enter data into PRISM at time of contract award. FAA also cannot identify how many noncompetitive contracts are listed in PRISM because it lacks internal controls for validating the accuracy of contract award data entered into the system. As a result, FAA managers cannot effectively use PRISM data to oversee procurements and

²² "Acquisition Workforce Gap Analysis Improvement Plan," Department of Transportation, February 2009.

accurately assess the impact of FAA's competitive practices to ensure contracts are properly administered.

Data Limitations Obstructed FAA's Knowledge of the Use of Competition

Our review of noncompetitive contract award actions recorded in PRISM found that contracting officials are not consistently recording whether contract actions were competitively or noncompetitively awarded. For example, in March 2010 we conducted a review to determine whether contracts awarded during the 12 months ending September 30, 2009, were recorded as "Competitive," "Noncompetitive," or "Not Subject to Competition" in the "Extent Competed" field in PRISM. This field requires an entry before the contracting officers can record contract award information in FPDS-NG. FAA notified its contracting officers requesting that they complete the missing information throughout FY 2009 and subsequent months. However, we identified 1,940 blank entries in the "Extent Competed" field for contract actions awarded for FY 2009 with estimated potential values of more than \$2 billion.²³

FAA officials confirmed that similar problems exist throughout the Agency. For example, for FY 2009, FAA's former Chief Acquisition Officer (CAO) and Vice President, Acquisition and Business Services, certified that 12 percent of all FAA's reportable contract actions were not entered into FPDS-NG as fully and accurately as possible, and that only 1 percent of FY 2009 procurements were reported directly to FPDS-NG through an online web portal. FAA officials stated that FAA plans to implement the FPDS-NG software, which requires complete fields in order to record an initial transaction. FAA's former CAO stated that implementing a contract writing system is one of FAA's highest priorities for improving its procurement practices.

An accurate database of noncompetitive awards would provide FAA with a tool to determine whether such awards were justified and not overpriced; perform market research to develop alternative sources; oversee performance; and conduct oversight to identify opportunities to increase the use of commercial practices, increasing the likelihood of competition. FAA states it is developing methods to improve its controls for data initially entered into PRISM and FPDS when contracts are awarded.

²³ The PRISM User Guide requires the "Extent Competed" field to be completed within PRISM to identify the extent of FAA's competitive and noncompetitive contract award actions, such as full and open competition, not available for competition, and not competed.

Internal Controls Are Insufficient To Validate the Number of Noncompetitive Awards Reported in PRISM

FAA lacks internal controls to validate the accuracy of information entered into PRISM when a contract is awarded. While FAA performs semiannual checks of PRISM to determine whether required fields are populated so new award data can be transferred to FPDS-NG, contracting officials are not correcting data errors identified in these checks in a timely manner. FAA contracting officials also inaccurately reported noncompetitive awards and procurements that are exempt from competitive requirements in PRISM's "Extent Competed" field. FAA's former Acquisition Executive reported to OMB that FAA contracting personnel place a higher priority on awarding contracts and lower priority on entering data accurately, although the accuracy of the data is critical for overseeing noncompetitive contract awards.²⁴ For example, FAA contracting officials inaccurately recorded 13 of 33 contract award actions (39 percent) we reviewed as "Not Competed," although they should have been recorded as "Competed Action" or "Not Available for Competition." Specifically:

- Two contracts were awarded using full and open competition and should have been recorded as "Competed Action."
- Five contract awards were set aside for small economically disadvantaged businesses. According to FAA's PRISM User Guide, which exempts these types of awards from competition requirements, they should have been recorded as "Not Available for Competition."
- Six contract awards were for "other transactions"—which are agreements that are not subject to rules of competition for FAA—and should have been recorded as "Not Available for Competition." FAA is implementing regulations to require that other transactions be separately accounted for in FPDS.²⁵ Although FAA uses PRISM to record data into FPDS, FAA's PRISM User Guide currently lacks information on how to code other transactions.²⁶

Since FAA inaccurately reports its use of competition, it is limited in its ability to oversee proper administration of contracts. On February 22, 2010, FAA's CAO reported to OMB that FAA is challenged in holding contracting personnel accountable for placing a priority on reporting procurements in a timely and accurate manner—since awarding contracts to support mission needs many times takes precedence over data reporting. FAA plans to distribute data discrepancy

²⁴ According to the FPDS Data Quality Report that FAA submits to OMB.

²⁵ According to FAA Legal Counsel, other transaction agreements are not subject to competitive requirements, do not require single source justification, and are not subject to AMS price analysis requirements.

²⁶ The Duncan Hunter National Defense Authorization Act, Public Law 110-417, Section 874 requires revisions to FPDS to facilitate the collection of timely and reliable data on transactions other than contracts, grants, and cooperative agreements.

reports more frequently; however, this will not ensure that data are valid when entered into the system at the time of contract award.

CONCLUSION

Maximizing the use of Federal funds is more important than ever as the Government is now seeking new ways to cut costs. Following proper price analysis methods provides FAA with the opportunity to better account for the hundreds of millions of dollars spent on noncompetitive contracts, avoid overpaying for goods and services, and ensure decision makers have visibility into the Agency's use of those contracts. While FAA has begun improving its processes, additional management controls are needed to meet OMB and Presidential direction regarding price reasonableness and reliable contract award data.

RECOMMENDATIONS

We recommend that FAA's Vice President of Business and Acquisition Services:

1. Implement oversight procedures to ensure that price analysis is documented and reviewed for completeness and adequacy before negotiating noncompetitive contract award actions.
2. Develop guidance on when current pricing information should be obtained and how the current data should be used, such as obtaining and reviewing rates available in GSA's Federal Supply Schedules, before negotiating prices.
3. Complete price analysis training for the acquisition workforce members with an identified need for such training. Ensure that program officials and engineers responsible for developing IGCEs complete price analysis training.
4. Amend FAA's PRISM User Guide to separately account for other transactions agreements or address how these agreements should be recorded in the "Extent Competed" field.
5. Implement internal control procedures to verify that entries in the "Extent Competed" field in PRISM are entered completely and accurately at the time contracts are awarded.
6. Implement a contract writing system or FPDS-NG software to validate that required fields are completed and valid codes are used when entering data for new awards.

AGENCY COMMENTS AND OFFICE OF INSPECTOR GENERAL RESPONSE

We provided a draft of this report to FAA for comment on March 31, 2011. We received FAA's response on April 27, 2011, which can be found in its entirety in the appendix of this report. FAA concurred with all of our recommendations and, in April 2011, had already implemented corrective action for recommendation 4. We consider this recommendation closed. FAA has also provided sufficient planned actions, with target dates for recommendations 1, 2, 3, and 5. We consider these actions resolved but open pending completion of the planned actions. For recommendation 6, however, FAA indicates that it intends to implement an FPDS-NG software module to close the recommendation but only when sufficient funding is identified for this effort due to budget uncertainty. Consequently, FAA did not estimate a completion date for those actions. In our opinion, since FAA states that it intends to implement the recommendation it should be able to estimate a future target date for taking the corrective action or provide an alternative corrective action and associated implementation dates. Accordingly, until we receive that information, we consider this recommendation open and unresolved.

ACTIONS REQUIRED

FAA provided acceptable actions and timeframes for recommendations 1, 2, 3, and 5, and we consider them resolved but open until planned actions are completed. For recommendation 4, we verified that FAA implemented its corrective action in April 2011, and we consider the recommendation closed. We request that within 30 days of this report, FAA provide in writing a target completion date for recommendation 6, or an alternative corrective action and estimated completion date. We consider this recommendation open and unresolved until that time. We appreciate the courtesies and cooperation of FAA representatives during this audit. If you have any questions concerning this report, please contact me at (202) 366-1427 or Terry Letko, Program Director, at (202) 366-1478.

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cc: Vice President, Office of Acquisition and
Business Services;
Anthony Williams, AAE-100
Carol Johnson, AAE-100
Martin Gertel, M-100

EXHIBIT A. SCOPE AND METHODOLOGY

We conducted this audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions 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.

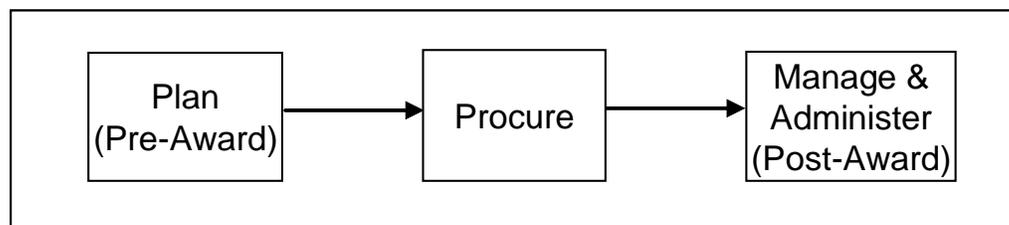
We conducted this audit between February 2008 and March 2011. The objectives of our audit were to determine whether FAA: (1) sufficiently justified and properly reviewed and approved the use of noncompetitive contract awards and (2) adequately performed and properly documented price analysis applicable to the contract.

To address our audit objectives, we used data from FAA's PRISM to identify the universe of noncompetitive contracts with award values of \$100,000 or more that were awarded for the 18-month period ending April 15, 2008, excluding grants and cooperative agreements. We identified a universe of 176 noncompetitive contracts for this period with estimated potential values of \$189.5 million. From this universe, we selected a random sample of 23 noncompetitive contracts for review. Of the 23 contracts, 17 were awarded before new AMS pricing methodology guidance on completing price analysis and IGCEs became effective on October 2007, and 6 noncompetitive actions were awarded after the new guidance. To further evaluate the effectiveness of the new guidance, we selected a second random sample of 10 contracts, with a total estimated potential value of \$24.8 million, awarded after the new guidance became effective. This second sample was selected from a universe of 105 noncompetitive contracts, with an estimated potential value of \$220.4 million, awarded for the 9-month period ending December 24, 2008. Ultimately, we reviewed 25 of the 33 total contracts (valued at \$44.8 million) selected for review because 2 sampled contracts were competitively awarded, and 6 sampled contracts represented other transactions, which are exempt from price analyses.

In the Department of Transportation's FY 1996 Appropriations Act, Congress provided FAA with broad authority to develop its own acquisition process without having to comply with Federal acquisition laws or regulations, including those addressing the award of noncompetitive contract actions. The intent was to allow FAA to streamline its acquisition processes so that it could acquire goods, services, and systems in a more timely and cost-effective manner. To implement the reforms, FAA established its Acquisition Management System (AMS), a set of policies and guidance designed to address the unique needs of the Agency and to

streamline all three acquisition life-cycle phases (see figure 1). AMS allows procurement flexibility, but to ensure this flexibility is properly applied, it requires sound judgment on the part of FAA procurement officials. Accordingly, FAA officials should consider best practices followed by other Federal agencies for awarding noncompetitive contract actions, and appropriate oversight by FAA executives is critical.

Figure 1. Acquisition Lifecycle



Source: Information Technology Resources Board

We reviewed documents in contracting files for randomly selected noncompetitive awards to determine whether price analysis was adequately completed. This included reviewing contract award decision documents, legal reviews, contractor price proposals and support, price analysis reports, IGCEs, and other documents that were relevant to the award. We also interviewed contracting staff, program managers, cost analysts, and other FAA officials to understand how price analysis was conducted. In some instances, we also recomputed price analysis. We used AMS, the FAA Pricing Handbook, Federal Acquisition Regulation (FAR), and guidance from other Federal agencies as a basis for our review. We briefed FAA senior acquisition officials on relevant findings throughout our review.

We also relied, in part, on the computer-processed data from FAA's PRISM database. During our audit, we assessed the reliability of the data. For data we found to be inadequate, we performed additional procedures to verify the information received. For example, we reviewed contract award documents to determine whether the action was awarded on a noncompetitive basis and verify the amount of the award. However, the lack of complete and accurate PRISM data resulted in a scope limitation that impacted the extent of our work. For example, 8 of 33 noncompetitive awards in our random sample were inaccurately recorded as "Noncompetitive," when they should have been recorded as "Competitive" or "Exempt from Competition." As a result of such errors, we could not complete our first audit objective to determine whether use of noncompetitive awards was justified and sufficiently approved. Specifically, due to the impracticality of obtaining a valid universe of noncompetitive contract actions, we were unable to gain assurance that required justifications for the use of noncompetitive contracts were sufficient.

EXHIBIT B. TECHNIQUES FOR PERFORMING PRICE AND COST ANALYSIS

Price Analysis. AMS procurement guidance provides several techniques that may be used in performing price analysis for noncompetitive awards:

1. Comparison of prior proposed prices and contract prices with current proposed prices for the same or similar end items and services in comparable quantities. (The FAR also requires that the reasonableness of the prior prices be established to use this method.)
2. Application of rough yardsticks (such as dollars per pound) to highlight significant inconsistencies that warrant additional pricing inquiry.
3. Comparison with competitive published catalogs or lists, published market prices or commodities, similar indexes, and discount or rebate arrangements.
4. Comparison of proposed prices with independent cost estimates.
5. Ascertaining that the price is set by law or regulation.

Although not included in AMS guidance, the FAR also includes the following methods for performing price analysis:

6. Comparison of proposed prices with prices obtained through market research for the same or similar items.
7. Analysis of pricing information provided by the offeror (such as sales history, vendor quotations, actual cost and rate information, and budgetary support).

Cost Analysis. AMS guidance indicates that cost analysis involves examining data submitted by the contractor, evaluating the judgmental factors applied in projecting estimated costs, and comparing with previous costs and forecasts of future costs based on historical experience. It includes the following techniques and procedures:

1. Verification of cost or pricing data (rates, etc.) and evaluation of cost elements.
2. Evaluating the effect of the offeror's current practices on future costs.
3. Comparison of costs proposed by the offeror with historical and actual costs and previous estimates for the same or similar items.

4. Analysis of the contractor's evaluation in determining the reasonableness of the subcontract costs.
5. Verification of the offeror's proposed costs to ensure that it reflects cost realism and reasonableness.
6. Determination of whether any cost or pricing data is necessary to make the contractor's proposal accurate, complete, and current has been submitted or identified in writing.

Obtaining field pricing assistance from DCAA or the Defense Contract Management Command is a common method of completing cost analysis. The contracting officer may request field pricing support when deemed necessary; methods include rate verifications, third-party audits, estimating system audits, and proposal analysis. Contracting officers are encouraged to use good business sense in deciding when to obtain pre-award audits. In comparison, FAR provides that the contracting officer should request field pricing assistance when the information available at the buying activity is inadequate to determine a fair and reasonable price.

EXHIBIT C. SIGNIFICANT CORRECTIVE ACTIONS FOR IMPROVING COST AND PRICE ANALYSIS AND ACCURACY OF PROCUREMENT DATA

- **October 2008:** FAA's NAEP expanded review elements for price analysis and proper entry of data into the FPDS. Each NAEP visit includes training on proper price analysis and award justifications, and FAA standards on the proper entry of FPDS data.
- **October 2009:** NAEP assumed responsibility of FPDS oversight for FAA, to include reporting agency compliance to OMB.
- **FY 2009:** To address NAEP and OIG findings, the Assistant Administrator for Regions and Center Operations provided tailored onsite training to her acquisition offices. This included the adequate use of pricing data and the proper development of an award justification.
- **FY 2010:** The National Acquisition Evaluation Group provided three cost and price analysis training classes to acquisition managers and contract specialists (two at FAA Headquarters and one at the William J. Hughes Technical Center).
- **FY 2010/FY 2011:** FAA is currently revising the Pricing Handbook to incorporate OIG findings and best practices from corporate and Federal sectors.
- **May 24, 2010:** To strengthen FAA's infrastructure and capabilities in cost and price analysis, the Director of Acquisition Policy, Workforce Development developed a plan to establish a Cost/Price Group and strengthen the training and policy for cost and price analysis within FAA.
- **December 30, 2010:** To strengthen and standardize FAA's capabilities in cost and price analysis, the Office of Acquisition and Business Services established the DCAA Audit and Price Analysis Support Team. This team will manage FAA's DCAA audit program, continually assess FAA's policy on cost and price analysis, provide assistance to contract specialists, and provide subject matter expertise in the development and delivery of cost and price training.

EXHIBIT D. MAJOR CONTRIBUTORS TO THIS REPORT

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APPENDIX. AGENCY COMMENTS



Federal Aviation Administration

Memorandum

Date: **APR 27 2011**

To: Lou E. Dixon, Principal Assistant General for Auditing and Evaluation

From: Clay Foushee, Director, Audit and Evaluations, AAE-1 *Michael F. McKinley
FAA*

Subject: **OIG Draft Report: FAA Must Strengthen Its Cost and Price Analysis Processes to Prevent Overpaying For Noncompetitive Contracts**

The Federal Aviation Administration (FAA) continues its commitment to conduct effective cost and price analysis for its noncompetitive awards. Through policy and process improvement and the delivery of effective training to acquisition professionals, FAA will improve its cost and pricing capabilities to ensure awards continue to be fair and reasonable.

In advance of this report, FAA has taken the following actions to reinforce its capabilities in cost and price analysis, oversight and the proper recordation of contract information:

- **October 2008:** FAA's National Acquisition Evaluation Program (NAEP) augmented its annual plan to include expanded review elements for price and cost analysis and proper entry of data into the Federal Procurement Data System (FPDS).
- **October 2009:** NAEP assumed responsibility of FPDS oversight for FAA, to include reporting agency compliance to the Office of Management and Budget.
- **Fiscal Year (FY) 2009:** FAA Headquarters and the Assistant Administrator for Regions and Center Operations provided focused and tailored onsite training to contract offices addressing core requirements of cost and price analysis.
- **January 2011:** FAA established the Defense Contract Audit Agency (DCAA) Audit and Price Analysis Support Team to manage FAA's DCAA audit program, continually assess FAA's policy on cost/price analysis, provide assistance to contract specialists and provide subject matter expertise in the development and delivery of cost/price training.

The following is provided in response to the Office of Inspector General's recommendations:

OIG Recommendation 1: Implement oversight procedures to ensure that cost and price analysis is documented and reviewed for completeness and adequacy before negotiating noncompetitive contract award actions.

FAA Response: Concur. FAA will continue to update the Acquisition Management System (AMS) and FAA Pricing Handbook to establish effective guidance for cost and pricing elements and techniques, and provide refresher training to acquisition management addressing cost and pricing standards and roles and responsibilities. AMS and the FAA Pricing Handbook will be revised as needed by September 30, 2011, while refresher training has already been developed and routinely delivered.

The NAEP will continue its reviews of acquisition offices to ensure effective cost and price is conducted and adequate management oversight is being applied. The FY 2011 NAEP reviews have already been initiated, and will continue through the end of the fiscal year.

OIG Recommendation 2: Develop guidance on when current pricing information should be obtained and how the current data should be used, such as obtaining and reviewing rates available in GSA's Federal Supply Schedules, before negotiating prices.

FAA Response: Concur. The DCAA Audit and Price Analysis Support Team will review AMS and reinforce language supporting when current pricing information should be obtained and how it can be effectively used, to include the use of rates available from GSA Federal Supply Schedules. AMS and associated guidance will be revised by September 30, 2011.

OIG Recommendation 3: Complete price analysis training for the acquisition workforce members with an identified need for such training. Ensure that program officials and engineers responsible for completing Government cost estimates complete price analysis training.

FAA Response: Concur. FAA will continue to deliver price analysis training to acquisition managers and Contracting Officers. Additionally, FAA's Acquisition Career Management group will review curriculum content and certification requirements and identify opportunities to strengthen training and guidance provided to program managers and Contracting Officer's Technical Representatives responsible for completing Independent Government Cost Estimates. Training and certification requirements will be reviewed and revised as needed by September 30, 2011.

OIG Recommendation 4: Amend FAA's PRISM User Guide to separately account for other transactions agreements or address how these agreements should be recorded in the "Extent Competed" field.

FAA Response: Concur. The instructions for “extent competed” field in the FPDS user guide have been interpreted differently by contracting staff, sometimes resulting in inconsistent coding of transactions. FAA updated the FDPS user guide in April 2011 to provide more explicit instructions about when and how to use the options under the “extent competed” field for each award type, to include other transaction agreements.

OIG Recommendation 5: Implement internal control procedures to verify that entries in the “Extent Competed” field in PRISM are entered completely and accurately at the time contracts are awarded.

FAA Response: Concur. Edit checks are present in the PRISM FPDS to FPDS-NG data transfer; however, the checks do not analyze each field. To ensure the “extent competed” field is properly addressed; FAA will establish an ongoing review process by May 31, 2011 to improve consistency and overall accuracy of FPDS data when entered at award.

OIG Recommendation 6: Implement a contract writing system or Federal Procurement Data System- Next Generation software to validate that required fields are completed and valid codes are used when entering data for new awards.

FAA Response: Concur. FAA’s goal continues to be the implementation of FPDS-NG in PRISM; however, recent budget constraints have prevented the implementation of this module. FPDS-NG will be implemented when sufficient funding is identified for the effort, but due to budget uncertainty no completion dates can be estimated at this time.