

**FAA'S ADMINISTRATION AND  
OVERSIGHT OF REGIONALLY ISSUED  
CONTRACTS**

*Federal Aviation Administration*

*Report Number: AV-2004-094*

*Date Issued: September 28, 2004*

# Memorandum

U.S. Department of  
Transportation  
Office of the Secretary  
of Transportation  
Office of Inspector General

Subject: ACTION: Report on Administration and  
Oversight of Regionally Issued Contracts  
Federal Aviation Administration  
AV-2004-094

Date: September 28, 2004

From: Alexis M. Stefani   
Principal Assistant Inspector General  
for Auditing and Evaluation

Reply to  
Attn of: JA-10

To: Federal Aviation Administrator

This report presents the results of our audit of service contracts issued by the Federal Aviation Administration's (FAA) regions. Throughout the audit, we periodically met with FAA officials to discuss our findings, conclusions, and recommendations.

FAA's regions rely heavily on support services contracts to procure a wide range of services, from relatively simple services such as janitorial, clerical, administrative, and groundskeeping support to highly complex ones such as architectural, engineering, environmental, and installation support.

Responsibility for the majority of FAA's contracting functions lies within two organizations. The Air Traffic Organization's Office of Acquisition and Business Services administers all contracts and interagency agreements awarded by FAA Headquarters.<sup>1</sup> FAA's Office of the Assistant Administrator for Region and Center Operations (ARC Organization) has responsibility for contracting services in FAA's nine regions and the FAA Aeronautical Center.

The focus of this audit was the contracting services provided by FAA's nine regions. As of September 30, 2003, the total dollar value obligated on active service contracts issued by FAA's nine regions was approximately \$600 million. Our objectives were to determine whether FAA regional offices are (1) implementing adequate contract administration procedures, and (2) providing

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<sup>1</sup> The Air Traffic Organization's Office of Operations Planning administers contracts issued by the FAA Technical Center.

proper management oversight of contracts for services, such as engineering, environmental, and installation support. Exhibit A contains details on the scope and methodology we used in conducting the audit.

## **BACKGROUND**

In 1996, Congress exempted FAA from most Federal procurement laws and regulations and directed FAA to develop a new acquisition management system. The goal of the new system was to provide more timely and cost-effective acquisitions and improve the quality of equipment and services acquired. FAA's Acquisition Management System establishes policy and guidance for all aspects of the acquisition life cycle. Although acquisition reform gave FAA more flexibility in how it acquires services, it did not alleviate FAA's responsibility to implement sound business procedures to ensure contracts are properly administered.

According to the Office of Federal Procurement Policy, contract administration involves those activities performed by Government officials after a contract has been awarded to determine how well the Government and the contractor performed in meeting the requirements of the contract. These activities include issuing contract modifications; certifying contractor invoices to ensure costs are allocable, allowable, and reasonable; and monitoring contract performance. As such, contract administration constitutes that primary part of the procurement process that assures the Government gets what it paid for.

## **RESULTS IN BRIEF**

Since the implementation of FAA's Acquisition Management System, we have conducted numerous audits of FAA contracts and have consistently found a lack of basic contract administration at every stage of FAA's contract management, from award to closeout. Our prior work on Headquarters contracting functions<sup>2</sup> identified that FAA's management of cost-reimbursable contracts was significantly deficient. For example, we found that FAA (1) did not obtain audits of billions of dollars in expenditures of cost-reimbursable contracts, (2) did not ensure reliable Government cost estimates were prepared and used in evaluating contracts, and (3) did not properly account for billings and expenditures to prevent overpayments. As a result, in January 2004, we identified those deficiencies as a "material weakness" reportable to the Congress and the President.

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<sup>2</sup> OIG Report Number FI-2004-031, "Report on Consolidated Financial Statements for Fiscal Years 2003 and 2002, DOT," January 30, 2004.

FAA subsequently made considerable progress in strengthening its oversight of cost-reimbursable contracts, including dedicating \$3 million for audits of 185 cost-reimbursable contracts and initiating a “bottoms-up” review of its Headquarters contract management functions. In June 2004, we agreed that the actions taken by FAA warranted downgrading the deficiency from a material weakness to a “reportable condition” on the Department’s next financial statement.

FAA’s recent actions to address controls over contracts issued by its Headquarters are significant steps in correcting what had been a longstanding deficiency. However, those actions do not address contracting functions within FAA regions that are the responsibility of the ARC Organization. The results of our review indicate that there are still substantial deficiencies in the administration and oversight of contracts issued by FAA regional offices. Our review of 45 randomly selected contracts worth \$29.1 million at three regional offices found significant weaknesses in internal controls that could expose FAA to potential fraud. For example, we found:

- Unauthorized individuals were negotiating, approving, and signing contractual agreements;
- Independent cost estimates to ensure contractor bids were reasonable and complete were not done before contracts were awarded;
- Completed contracts remained open for up to 4 years; and
- Contract files lacked basic documentation critical for safeguarding the Government’s interests.

The internal control weaknesses we identified occurred largely because there was no clear delineation of accountability for the administration and oversight of regional contracting functions. During our review, FAA took timely actions to address our concerns and substantially improve its administration and oversight of regional contracts. Those actions included establishing a new position within the ARC Organization to facilitate the consistent and appropriate implementation of FAA’s Acquisition Management System within the regions.

**Unauthorized individuals were negotiating, approving, and signing contractual agreements.** We found that on 7 of the 45 randomly selected contracts (15 percent), FAA engineering personnel having no contracting authority negotiated and signed approximately 150 unauthorized commitments totaling approximately \$8 million. For example,

- On one contract, an Airway Facilities program manager, who had no contracting authority, negotiated and signed approximately 85 task orders over a 5-year period. As a result, the contracting officer did not know when a task order was issued, what type of work was being requested and performed, or how much money was owed or paid to the contractor.

Unauthorized commitments constitute a serious breach of contracting authority. In fact, FAA's Acquisition Management System defines an unauthorized commitment as a contract or agreement made by FAA employees that is not binding because the person who made the agreement lacked the authority to commit the Government.

We also found that on 3 of the 45 randomly selected contracts (7 percent), FAA project managers bypassed Government competitive contracting requirements and directed contracts to vendors they pre-selected. For example,

- An FAA project engineer met with a contractor and negotiated and approved contract requirements and costs without notifying the contracting officer. After meeting with that contractor, the project engineer instructed the contracting officer to direct another contractor to issue a subcontract to the vendor pre-selected by the project engineer.

The competitive bidding process is a lynchpin of Government contracting controls and essential for ensuring that Government contracts are free from waste, fraud, and abuse. In this instance, by bypassing those controls, there is a significant risk that opportunities exist for collusion, kickbacks, or other types of fraud to occur between contractors and FAA employees.

**Independent cost estimates to ensure contractor bids were reasonable and complete were not done before contracts were awarded.** One of the key tools FAA has to protect itself from overpaying for goods and services is an Independent Government Cost Estimate (IGCE). An IGCE provides the Government with a basis to estimate the potential costs of a project and help contracting officials determine the reasonableness and completeness of proposals submitted by contractors. According to FAA's Acquisition Management System, IGCEs are also used to detect buy-ins, unbalanced pricing, or other techniques used by contractors that can significantly increase the post-award cost of contracts. However, we found that project engineers and regional contracting officials did not prepare IGCEs for 22 of the 38 contracts (58 percent) that required them.<sup>3</sup>

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<sup>3</sup> An IGCE was not required for 7 of the 45 contracts we reviewed due to the nature of the procurement, such as purchases made on the General Services Administration Federal Supply Schedule.

In addition, for the 16 contracts where IGCEs were done, we found FAA accepted the contractor's proposal without questioning significant variances between the IGCE and the contractor's proposal for labor hours, work plans, and/or costs. For example,

- On one contract, FAA's IGCE was for \$200,466 and the contractor's proposal came in at \$132,969, or 34 percent lower. Both the FAA project engineer and the regional contracting officer accepted the lower proposal. However, the contractor's proposal contained half the labor hours and no estimate for environmental work as required by the statement of work for the project.

In this instance, by not questioning the variances, FAA opened itself up to future contract modifications that could significantly increase the contract costs without increasing the scope of work.

**Completed contracts remained open for up to 4 years.** FAA's Acquisition Management System states that once the requirements for a contract are complete, the contract should be closed out in a timely fashion and excess funds deobligated. This allows FAA to free excess funds for other projects and minimizes the cost of administering the contract. However, regional contracting officials did not close out completed and inactive contracts and task orders in a timely manner. We found 18 of the 45 sampled contracts reviewed (40 percent) were completed or inactive and should have been closed out. For example,

- One inactive contract we reviewed remained open for more than 4 years. In March 2000, the contractor informed FAA that "we are no longer in a position to fulfill your request under the referenced delivery order." As of May 2004, the contract was still open. As a result, \$104,000 in obligated funds that could have been put to better use on other projects remained unused.

In total, we identified approximately \$233,000 that remained open on the 18 completed or inactive contracts that could have been deobligated and put to better use on other FAA programs.<sup>5</sup>

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<sup>5</sup> In most cases, once funds are appropriated, FAA has up to 8 years to expend those funds. Otherwise, unused funds will be returned to the Treasury and are no longer available to support the Agency's mission.

**Contract files lacked basic documentation critical for safeguarding the Government's interests.** FAA's Acquisition Management System policies state that the contract file is the official record for an acquisition and should contain enough information so a history of contractual actions can be determined to safeguard the Government's interests. Having a complete contract file allows the Agency to defend itself against potential lawsuits by contractors and provides crucial data needed by FAA contracting officials to administer the contract or for outside auditors, such as the Defense Contract Audit Agency (DCAA), to perform required audits.

However, we identified that 23 of the 45 contracts (51 percent) lacked adequate documentation to provide a sufficient history of the contractual actions to safeguard the Government's interests. The files lacked basic documents, such as a complete copy of the contract, the original contract award, contract modifications, and invoices. In fact, we determined that a majority of the sampled contract files for one region were assembled approximately 2 weeks before our visit.

DCAA has also found that documentation in regional contract files was inadequate. For example, while auditing a contract from the Southwest Region, DCAA was unable to find a single complete copy of the contract and task orders from either FAA or the contractor and so was unable to conduct a complete cost audit requested by FAA regional officials.

Adequate contract documentation is also important because it provides contracting officers with the back-up materials necessary to effectively administer their contracts. We found that more than one contracting officer could not answer basic questions regarding the contracts they were administering, such as how much the contracts were funded for, how much funding had been expended, and how much funding remained open on the contracts.

**There Is a Statistically High Probability That Similar Control Weaknesses Exist Throughout All FAA's Regional Offices.** Because our review consisted of a stratified random sample, there is a high probability that the problems we found in FAA's contracting functions at the three regions visited exist throughout FAA's other six regions. For example, at the three regions visited, for the total universe of 177 contracts (from which the 45 samples were randomly selected), we can project that approximately 57 percent do not contain IGCEs, approximately

44 percent should have been closed out, and approximately 58 percent do not contain adequate documentation to provide a history of contractual actions.<sup>6</sup>

We determined that the internal control weaknesses we identified occurred largely because there was no clear delineation of accountability for the administration and oversight of regional contracting functions. We found that both the ARC Organization and regional management failed to provide adequate oversight to ensure that regional contracts followed requirements of FAA's Acquisition Management System. In addition, we found that regional contracting officers lacked the basic training necessary to properly administer contracts. We found that 14 of the 16 regional contracting officers whose contracts we reviewed did not receive the 80 hours of required training for one or more of the last three 2-year training cycles.

**Recent Agency Actions Should Significantly Improve Oversight and Administration of Regional Contracts.** During our review, FAA took significant actions to address our concerns and incorporate accountability within the ARC Organization for regional contract administration and oversight. In December 2003, the ARC Organization established a new position, a National Logistics Coordinator, to facilitate the consistent and appropriate implementation of FAA's Acquisition Management System within the regions. During the audit, the Coordinator worked closely with our audit team at each site to analyze regional contracting functions and determine the appropriate corrective actions needed.

In July 2004, the National Logistics Coordinator met with all regional Chiefs of Contract Offices to review our findings and identify an action plan for making corrections. In addition, initiatives such as training and performance standards are being planned for implementation into the Region and Center Operations Fiscal Year 2005 Business Plan.

During our site visits at each region, FAA also took immediate actions to address our concerns. For example, during our site visits to one region, contracting officials began a review to close out and deobligate funds on all inactive contracts and began reviewing contracting files to identify missing documentation. At another region, contracting officials took immediate steps to begin ratifying all unauthorized commitments we identified and met with program officials to create a process for ensuring that unauthorized commitments are not created in the future.

We commend FAA's actions taken during our audit. They clearly represent steps in the right direction and in conjunction with the Agency's actions to address our

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<sup>6</sup> Based on the statistical midpoint of a projected range of non-compliance with a maximum margin of error of +/- 15 percentage points and a 95 percent confidence level.

recommendations should significantly improve controls over FAA's administration and oversight of regional contracts.

## **Recommendations**

While the issues we found at FAA regional offices do not rise to the level of materiality that we previously found in FAA Headquarters, they do represent serious breaches in basic contract administration that could make support contracts issued by FAA regions subject to fraud, waste, and abuse. Our recommendations focus on the specific actions needed to improve the oversight and administration of contract procedures within FAA regions. They include:

- Completing the ratification process for all unauthorized commitments identified during our audit and ensuring that program managers and project engineers at all regions understand their roles under FAA's Acquisition Management System contract authority.
- Taking appropriate action to determine whether there are additional unauthorized commitments in the remaining six regions and beginning the ratification process for any additional unauthorized commitments identified.
- Requiring all regions to review all contracts for completed or inactive contracts so they can begin the close-out process and deobligate any remaining funds, and ensuring that the approximately \$233,000 remaining on the inactive or completed contracts we identified during this audit is deobligated and put to better use on other projects or returned to the Treasury.
- Developing a process for conducting periodic reviews of regional contracting functions to ensure compliance with FAA's Acquisition Management System policies.
- Reviewing all regional contracting officers' training to identify those officers who do not meet minimum requirements and limiting their warrant authority until they meet all training requirements.

A complete list of our recommendations can be found on page 17 of this report.

**Agency Comments**

On August 19, 2004, we provided a draft copy of this report to officials from the ARC Organization for their review and oral comments. In general, FAA officials agreed with the facts as presented in our report and concurred with our recommendations. We are requesting that FAA provide written comments on each recommendation within 30 calendar days.

## **FINDING AND RECOMMENDATIONS**

We found that FAA regional offices did not exercise adequate contract administration procedures over service contracts and that improvements are needed in FAA's administration and oversight of regionally issued contracts. Specifically, at three regions visited, we randomly sampled 45 contracts worth \$29.1 million and found that regional contracting officials (1) bypassed FAA's Acquisition Management System (AMS) policies for issuing single-source contracts, (2) did not effectively utilize government cost estimates, (3) did not close out contracts and task orders in a timely manner, and (4) did not maintain adequate documentation in contract files. We also found that regional program managers without contracting authority signed approximately 150 unauthorized commitments totaling approximately \$8 million.

These deficiencies occurred because the ARC Organization and regional management did not provide proper oversight of regionally issued contracts to ensure that contracting personnel were adhering to AMS policies. In addition, we found contracting officers lacked the basic training necessary to administer contracts properly. For example, 14 of the 16 regional contracting officers whose contracts we reviewed had not completed mandatory training requirements for their positions. Because of the deficiencies we identified, FAA has only limited assurance that support contracts issued by the regions are being effectively used for the goods and services FAA needs or that those contracts are free from fraud, waste, and abuse.

### **FAA Regional Personnel Without Contracting Authority Were Negotiating, Approving, and Signing Contractual Agreements**

The AMS states that contracts, agreements, and other transactions may be entered into and signed on behalf of FAA by contracting officers only. However, we found that on 7 of 45 randomly selected contracts, FAA engineering personnel having no contracting authority negotiated and signed approximately 150 unauthorized commitments totaling approximately \$8 million. For example:

- On one contract, an Airway Facilities program manager negotiated and signed approximately 85 task orders over a 5-year period without having the authority to do so. As a result, the contracting officer did not know when a task order was issued, what type of work was being requested and performed, or how much money was owed or paid to the contractor. The same program manager signed task orders on five other contracts as well.

We also found that FAA project engineers would bypass contracting officials and meet directly with vendors, using the contracting officer for signature authority only. On four contracts in one region, we found project engineers met with contractors to discuss, negotiate, and approve labor hours and contract costs before the contractor submitted a proposal to FAA. For example:

- On one contract, the FAA project engineer, without assistance from the contracting officer, met with the contractor and discussed, negotiated, and approved the contractor’s cost proposals before the contractor submitted the bid to FAA. The contractor’s cost proposals for the original award and two subsequent scope revisions contained this language:
  - “The cost proposal has been coordinated with FAA [the Project Manager]...”
  - “This proposal has been negotiated with FAA project engineer [X]...”
  - “The proposed amount of \$27,169.51 has been approved by FAA project engineer [X]...”

We also found three instances where contracting officers exceeded their warrant authority<sup>7</sup> by as much as \$2.5 million. For example, we found that one contracting officer’s warrant was set at \$500,000, yet the contracting officer signed contracts for up to \$3 million. Although the contracting officer attributed the breach of the warrant authority to an “administrative oversight” and a failure to request an upgraded warrant, exceeding warrant authority results in an unauthorized commitment.

Unauthorized commitments constitute a serious breach of contracting authority. In fact, the AMS defines an unauthorized commitment as a contract or agreement made by FAA employees that is **not binding** because the person who made the agreement lacked the authority to commit the Government. Because of the severity of this breach of contracting authority and the potential liability to the Government, we briefed regional management on this issue during our site visit at the time the unauthorized commitments were identified. Afterward, regional contracting officials began the ratification process for the three unauthorized commitments made when a contracting officer exceeded her warrant.

As a result of our briefing, contracting officials also notified both the Airway Facilities and the regional National Airspace System Implementation Center that engineering employees were signing unauthorized commitments and suggested a

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<sup>7</sup> A contracting warrant authorizes the contracting officer to bind the FAA contractually and must expressly state the dollar limitations of this authority.

joint review to determine the extent of the issue. At the time of our site visit, regional management had also begun the process of ratifying the unauthorized commitments we identified during our audit.

We are requesting that within 90 days of the date of this report, the ARC Organization provide a status of the ratification process for the unauthorized commitments we identified during the audit. In addition, in conjunction with the Air Traffic Organization's Vice President for Technical Operations, the ARC Organization should take appropriate actions to ensure that program managers and project engineers understand their roles, responsibilities, and authority under the AMS.

### **Procedures for Issuing Single Source Contracts Were Bypassed**

AMS requires a rational basis for source selection decisions that result from either a competition or a single source. FAA may contract with a single source when it is determined to be in the best interest of the FAA and the rational basis is documented. This rational basis may include emergencies, the effort to increase standardization, or that only one vendor can satisfy the requirement within the time required. However, we found that contracting officers bypassed AMS requirements for single source procurements on three contracts.

For example, an existing contract was used to obtain the services of a pre-selected contractor. An FAA project engineer met with the potential contractor and negotiated and then approved contract requirements and costs before notifying the contracting officer. Then the project engineer requested that the contracting officer require the existing contractor to issue a subcontract to the pre-selected contractor for the services that were previously negotiated. As a result of bypassing AMS guidance, FAA unnecessarily paid the existing contractor \$12,500 essentially to pass paperwork on to the pre-selected contractor.

### **Regional Contracting Officials Did Not Adequately Use Government Cost Estimates**

One of the key tools FAA has to protect itself from overpaying for goods and services is the IGCE. An IGCE provides the Government with a basis to estimate the potential cost of a project and help contracting officials determine the reasonableness, fairness, and completeness of proposals submitted by contractors. According to the AMS, IGCEs are also used to detect buy-ins, unbalanced pricing, and other techniques used by contractors that can significantly increase the post-award cost of contracts. However, we found that project engineers and regional

contracting officials did not effectively use IGCEs to ensure that contractor proposals were complete, fair, and reasonable.

We found that IGCEs were not completed for 22 of the 38<sup>8</sup> contracts we reviewed that required IGCEs. In addition, when IGCEs were submitted, neither FAA project engineers nor regional contracting officials questioned significant variances between the FAA IGCE and the contractor proposal for labor hours, work plans, or costs. For example:

- On one contract, FAA's IGCE was for \$200,466 and the contractor's proposal came in at \$132,969—34 percent lower. Both the FAA project engineer and the regional contracting officer accepted the proposal without questioning why the contractor's proposal contained half the labor hours and no estimate for environmental work, which was required by the statement of work for the project. By not questioning the variances, FAA opened itself up to future contract modifications that could significantly increase the contract costs without increasing the scope of work.

Project engineers and regional contracting officers we spoke with stated that if the contractor's proposal and the IGCE estimate were close, they would accept the contractor's bid without reviewing the breakout of line-item costs.

Although the AMS does not establish a specific dollar threshold at which IGCEs must be prepared, it is not unreasonable in our opinion to expect that contracts with a dollar threshold above \$10,000 will have an IGCE prepared. Accordingly, we are recommending that regional contracting officers request IGCEs for all contracts over \$10,000 and analyze any variances of 10 percent or more between the Government's IGCE and the contractor's proposal.

### **Regional Contracting Officials Did Not Close Out and Deobligate Excess Funds from Completed and Inactive Contracts in a Timely Manner**

The AMS states that once the requirements for a contract are complete, the contract should be closed out in a timely fashion and excess funds deobligated. This allows FAA to free excess funds for other projects<sup>9</sup> and minimizes the cost of administering the contract. However, regional contracting officials did not close out completed and inactive contracts and task orders in a timely manner. We

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<sup>8</sup> An IGCE was not required for 7 of the 45 contracts we reviewed due to the nature of the procurement (e.g., purchases made on the General Services Administration Federal Supply Schedule).

<sup>9</sup> In most cases, once funds are appropriated, FAA has up to 8 years to expend those funds. Otherwise, unused funds will be returned to the Treasury and are no longer available to support the Agency's mission.

found 18 of the 45 sampled contracts were completed or inactive and should have been closed out. For example:

- One inactive contract we reviewed remained open for more than 4 years. In March 2000, the contractor informed FAA that “we are no longer in a position to fulfill your request...under the referenced delivery order.” As of May 2004, the contract was still open. As a result, \$104,000 in obligated funds that could have been put to use on other projects remained unused.

In total, we identified \$232,962 that remained open on the 18 completed or inactive contracts. The ARC Organization needs to ensure that the \$232,962 is deobligated and put to use on other FAA programs or, if required, returned to the Treasury. Because our sample was randomly selected, there is a high likelihood that there is a significant number of complete or inactive contracts that should be closed out throughout all FAA regions.<sup>10</sup> As a result, we are recommending that all regions review contracts for completed or inactive contracts to begin the close-out process and to deobligate any remaining funds.

### **Regional Contract Files Lacked Sufficient Documentation To Provide a History of Contractual Actions**

AMS policies state that the contract file is the official record for an acquisition and should contain enough information so a history of contractual actions can be determined. Having a complete contract file allows the Agency to defend itself against potential lawsuits by contractors and provides crucial data needed by FAA contracting officials and outside auditors, such as DCAA, to perform required audits. We found that contract files for 23 of the 45 contracts sampled lacked adequate documentation to provide a sufficient history of contractual actions. As shown in the table, many contract files were missing key documents.

**Table. Required Documentation Missing From 45 Sampled Contract Files**

Region	Number of Sampled Contracts Missing Documentation*					
	Invoices	Invoice Certification	Invoice Justification	IGCEs	Close-out Documentation	Historical Documentation
Southwest	1	2	5	9	8	3
Southern	12	13	13	4	5	15
Eastern	2	7	5	9	5	5

<sup>10</sup> Because of the methodology used in our sample selection, we could not project a potential dollar value of closed or inactive contracts throughout all FAA regions.

<b>Total</b>	<b>15</b>	<b>22</b>	<b>23</b>	<b>22</b>	<b>18</b>	<b>23</b>
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\* Includes documentation such as procurement requests, funding approval, statement of work, contractor's proposal, and bid solicitations

In fact, we determined that a majority of the sampled contract files for one region were assembled approximately 2 weeks prior to our visit. These files did not contain basic documents, such as the original contract award, contract modifications, and invoices. These documents are important because they provide contracting officers with the back-up materials necessary to adequately administer their contracts and protect the Government's interests. We found that more than one contracting officer could not answer basic questions regarding the contract he or she was administering, such as how much the contract was funded for, how much funding had been expended, and how much funding remained on the contract.

DCAA has also found that documentation in regional contract files was inadequate. For example, while auditing a contract from the Southwest Region, DCAA was unable to find a single complete copy of the contract and task orders from either FAA or the contractor. In addition, DCAA found that the contractor and an FAA representative made a verbal agreement to change the terms of the contract, but the agreement was never documented by FAA. As a result, DCAA concluded that "the audit results are qualified to the extent that an examination of the records which were unavailable may have disclosed additional questioned costs."

Based on the deficiencies we found in the random sample of 45 contracts, we can project the likelihood of the deficiencies occurring if we had reviewed the entire population of 177 contracts from the three regions. These projections indicate that around 58 percent of the 177 contracts at the regions we visited did not have adequate documentation to provide a complete history of the contractual actions.<sup>11</sup> Because our review consisted of a stratified random sample, there is a high probability that the problems we found in FAA's contracting function at the three regions visited exist throughout FAA's other six regions as well. (See Exhibit B for complete statistical projections of non-compliance.)

### **The ARC Organization and Regional Management Did Not Review the Effectiveness of Contract Administration Procedures**

The deficiencies we identified occurred because the ARC Organization and regional management did not adequately oversee regional contract administration

<sup>11</sup> This is based on the statistical midpoint of a projected range of non-compliance with a maximum margin of error of +/- 15 percentage points and a 95 percent confidence level.

functions. Specifically, we found that the ARC Organization did not review whether regions were implementing effective contract administration procedures or whether they were following the AMS. In addition, we found that regional contracting management did not perform periodic reviews of their contract administration procedures to ensure adherence to AMS policies and procedures. In some cases, a periodic review may have detected major lapses in contract administration by senior contracting officials. For example:

- External auditors detected that one contracting officer exceeded his or her warrant authority and informed FAA of this violation in June 2003. Yet FAA took no actions to ratify the unauthorized agreement until we informed them of the same violation in December 2003.

We are recommending that the ARC Organization develop a management oversight system for periodically reviewing regional contracting functions to ensure compliance with AMS policies on issues such as contracting authority, single source procurements, invoice certification, contract closeout, and contract documentation.

### **Regional Contracting Officers Did Not Receive Adequate Training**

In 1996, Congress amended the Office of Federal Procurement Policy Act to establish education, training, and experience requirements for the acquisition career field at civilian agencies. FAA's Acquisition Career Development Policy for Contracting Professionals is designed to attract, select, develop and retain a highly qualified workforce capable of performing acquisition functions. Among the requirements are courses that contracting officers must take before being promoted to a higher acquisition level.<sup>12</sup> In addition, FAA Acquisition Career Development Policy for Contracting Professionals requires contracting officers to complete 80 hours of continuing education training every 2 years to maintain their certification level. This ensures that contracting officers have the skills and knowledge necessary to perform their duties.

However, we found that regional contracting officers did not meet the training requirements for either of the training requirements. Of the 16 regional contracting officers whose contracts we reviewed, only 8 of them had met the mandatory training requirements for their acquisition level. In addition, only two met the 80-hour continuous training requirement for one or more of the previous three 2-year training cycles. In fact, at one region we visited, none of the

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<sup>12</sup> FAA's contracting functions are organized into three levels—the higher the level the greater responsibility and grade of the contracting officer.

contracting officers (each of whom had an unlimited contract warrant authority) had met the 2-year training cycle requirements for any of the three previous training cycles.

We are recommending that the ARC Organization review all regional contracting officers' training records to ensure that regional contracting officers have met or plan to meet their 80-hour biennial continuous training requirement. We are also recommending that the ARC Organization take action to limit the warrant authority of any contracting officer who does not meet the standards for their contracting level or the 80-hour continuous education training requirement.

### **Recent Actions Taken by the ARC Organization and Regional Management Should Significantly Improve Administration and Oversight of Regional Contracts**

During the course of our review, we received the full cooperation of both the ARC Organization and regional contracting management, and both groups took timely actions to correct the deficiencies we identified. During our site visits at each region, FAA took immediate actions to address our concerns.

For example, during our site visits to one region, contracting officials began a review to close out and deobligate funds on all inactive contracts and reviewed all contracting files to identify missing documentation. At another region, contracting officials took immediate steps to begin ratifying all unauthorized commitments we identified and met with program officials to create a process for ensuring that unauthorized commitments are not created in the future.

FAA also took steps to address our concerns regarding the lack of oversight for regional contracting functions. For example, in December 2003, the ARC Organization established a new position, the National Logistics Coordinator, to facilitate the consistent and appropriate implementation of the AMS within the regions. During the audit, the Coordinator worked closely with our audit team at each site to analyze regional contracting functions and determine the appropriate corrective actions needed.

In July 2004, the Coordinator met with all regional Chiefs of Contract Offices to review our findings and identify an action plan for making corrections. In addition, initiatives such as training and performance standards are being incorporated into the Region and Center Operations Fiscal Year 2005 Business Plan.

We commend FAA's actions taken during our audit. They clearly represent steps in the right direction.

## RECOMMENDATIONS

We recommend that the FAA Assistant Administrator for Region and Center Operations:

1. Provide us within 90 days of the date of this report a status report on the ratification process for the unauthorized commitments worth approximately \$8 million identified during our review.
2. Determine whether there are additional unauthorized commitments in the remaining six regions and begin the ratification process for any unauthorized commitments identified.
3. In conjunction with the Air Traffic Organization's Vice President for Technical Operations, ensure that program managers and project engineers understand their roles and responsibilities under AMS guidelines.
4. Implement procedures requiring that regional contracting officers request IGCEs for all contracts over \$10,000 and analyze any variances of 10 percent or more between the IGCE and the contractor's proposal.
5. Establish a process for conducting periodic reviews of regional contracting functions to ensure compliance with AMS policies on issues such as contracting authority, single source procurements, invoice certification, contract closeout, and contract documentation.
6. Require all regions within 90 days of the date of this report to review contracts for completed or inactive contracts so they can begin the close-out process and deobligate any remaining funds.
7. Ensure that the \$232,962 remaining on the 18 inactive or completed contracts we identified during this audit is deobligated and put to better use on other projects or returned to the Treasury.
8. Review all regional contracting officers' training records within 90 days of the date of this report to ensure that contracting officers have met or plan to meet their 80-hour, biennial mandatory training requirement and limit the warrant authority of contracting officers who do not meet minimum training requirements until they meet all the standards for their contracting grade level and/or the 80-hour continuous education training requirements.

## **AGENCY COMMENTS**

On August 19, 2004, we provided a draft copy of this report to officials from the ARC Organization for their review and oral comments. In general, FAA officials agreed with the facts as presented in our report and concurred with our recommendations.

## **ACTIONS REQUIRED**

In accordance with Department of Transportation Order 8000.1C, we would appreciate receiving your formal comments on this report within 30 calendar days. If you concur with the finding and recommendations, please indicate the specific actions taken or planned and the target dates for action. Please also indicate if you agree with funds we identified that could be put to better use. If you do not concur, please provide an explanation of your position. We welcome any alternative courses of action that could resolve the issues.

We appreciate the cooperation and assistance provided by you and your staff during the audit. If you have any questions or need further information, please contact me at (202) 366-1992 or David A. Dobbs, Assistant Inspector General for Aviation Audits, at (202) 366-0500.

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cc: FAA Deputy Administrator  
FAA Chief of Staff  
Anthony Williams, ABU-10

## EXHIBIT A. SCOPE AND METHODOLOGY

The audit was conducted in accordance with Government Auditing Standards prescribed by the Comptroller General of the United States and included such tests as we considered necessary to provide reasonable assurance of detecting abuse or illegal acts. We performed the audit between November 2003 and June 2004 at FAA Headquarters and FAA's Southwestern, Southern, and Eastern Regional offices.

To identify total number and dollar value of contracts issued from each region, we requested from FAA the database of all contracts contained in the ACQUIRE system as of September 30, 2003.<sup>13</sup> ACQUIRE is FAA's system for collecting, maintaining, and reporting FAA contracting data.<sup>14</sup> From this database, we chose all open contracts with an estimated completion date of October 1, 2002, or later. We focused our objectives on all contracts issued under the technical categories of architectural, engineering, environmental, and installation service contracts. The Office of Inspector General's statistician drew a random, stratified statistical sample of 15 contracts per region (5 contracts with a dollar value of between \$10,000 and \$100,000 and 10 contracts with a dollar value greater than \$100,000).

The following methodology was used in analyzing the 15 contracts within the 3 FAA regions. To determine whether FAA regional offices are implementing adequate contract administration procedures, we interviewed Headquarters and regional contracting officials to identify whether policies and procedures are in place for regional contract administration. We reviewed the Agency's Acquisition Management System and the FAA Acquisition System Toolset to review the acquisition policies and procedures that the Agency adopted for its regional contract administration procedures and management oversight.

For each contract in our sample, we reviewed the Official Contract File, as well as supporting documentation in the files of the project engineers and the regional accounting divisions. We reviewed the documentation for compliance with Agency policies, including but not limited to contract award, contract revisions, delegations of authority, independent government cost estimates, contractor work plans, contractor invoices, contractor correspondence, and contract close-out documentation. Additionally, we reviewed for compliance Agency policies on contracting authority to determine if non-contracting personnel were negotiating,

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<sup>13</sup> We used ACQUIRE data to select our sample at the three regions visited. Our results are based on data contained in the sampled contracts and not on data contained in ACQUIRE.

<sup>14</sup> As of October 2003, FAA switched from ACQUIRE to the PRISM database system.

discussing, or approving contractual actions with contractor personnel before the contracting officer became involved.

To determine whether FAA regional offices were providing proper management oversight on support service contracts, we interviewed acquisition officials from the ARC Organization and regional offices about policies and procedures in place regarding regional contract management oversight and about whether management performed periodic reviews of contract administration procedures for compliance with AMS requirements. In addition, we reviewed FAA personnel policies to determine FAA's training requirements for contracting officers. We then reviewed regional training records to determine if the contracting officers met those training requirements.

## EXHIBIT B. PROJECTIONS OF NON-COMPLIANCE WITH AMS IN REGIONAL SERVICE CONTRACTS

Type of Non-compliance	Non-compliance in Sample (n=45)	Projections for Non-compliance in the Contract Universe* (N=177)		
		No. of Contracts	Percent of Contracts	Statistical Midpoint
Unauthorized Commitments	7	10 – 21	6% – 12%	9%
No IGCE**	22	74 – 128	42% – 73%	57%
No Close-out Documentation	18	51 – 103	29% – 58%	44%
No Historical Documentation	23	83 – 123	47% – 70%	58%

\* Engineering, environmental, installation, and architectural and engineering contracts issued by Eastern, Southern, and Southwestern Regional Offices

\*\* IGCE: Independent Government Cost Estimate