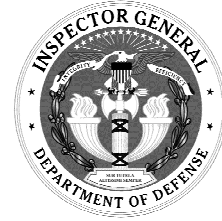


October 30, 2002



# Acquisition

Material Distribution Services  
Contract at the Defense Distribution  
Depot Warner Robins, Georgia  
(D-2003-016)

Department of Defense  
Office of the Inspector General

*Quality*

*Integrity*

*Accountability*

## Report Documentation Page

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### **Acronyms**

APL	Acceptable Performance Level
CGA	Continuing Government Activity
COSIS	Care of Supplies in Storage
DDC	Defense Distribution Center New Cumberland
DDWG	Defense Distribution Depot Warner Robins, Georgia
DLA	Defense Logistics Agency
QA/CSP	Quality Assurance Customer Satisfaction Plan
QASP	Quality Assurance Surveillance Plan



INSPECTOR GENERAL  
DEPARTMENT OF DEFENSE  
400 ARMY NAVY DRIVE  
ARLINGTON, VIRGINIA 22202-4704

October 30, 2002

MEMORANDUM FOR DIRECTOR, DEFENSE LOGISTICS AGENCY

SUBJECT: Report on the Material Distribution Services Contract at the Defense Distribution Depot Warner Robins, Georgia (Report No. D-2003-016)

We are providing this report for review and comment. We considered management comments on a draft of this report when preparing the final report. We conducted the audit in response to a congressional request regarding the management of the material distribution services contract at the Defense Distribution Depot Warner Robins, Georgia.

DoD Directive 7650.3 requires that all recommendations be resolved promptly. We revised Recommendations 1. and 2. to clarify our intent. The Defense Logistics Agency comments were partially responsive. Therefore, we request that the Defense Logistics Agency provide comments on Recommendations 1., 2., and 3. by December 20, 2002.

If possible, please provide management comments in electronic format (Adobe Acrobat file only). Send electronic transmission to the e-mail addresses cited in the last paragraph of this memorandum. Copies of the management comments must contain the actual signature of the authorizing official. We cannot accept the /Signed/ symbol in place of the actual signature.

Questions should be directed to Mr. Joseph P. Doyle at (703) 604-9349 (DSN 664-9349) (jdoyle@dodig.osd.mil) or Ms. Deborah L. Culp at (703) 604-9335 (DSN 664-9335) (dculp@dodig.osd.mil). See Appendix D for the report distribution. The team members are listed inside the back cover.

*David Steensma*

David K. Steensma  
Deputy Assistant Inspector General  
for Auditing

## Office of the Inspector General of the Department of Defense

Report No. D-2003-016

(Project No. D2001CK-0144)

October 30, 2002

### Material Distribution Services Contract at the Defense Distribution Depot Warner Robins, Georgia

#### Executive Summary

**Who Should Read This Report and Why?** This report should be read by DoD civilian and military personnel responsible for writing and administering contracts resulting from public-private competitions. The report discusses the necessity for a well-written contract that ties contractor payment to performance and provides for aggressive enforcement of contract provisions.

**Background.** Senators Max Cleland and Zell Miller and Representative Saxby Chambliss requested an audit of the distribution and warehousing contract at the Defense Distribution Depot Warner Robins, Georgia. Because the contract was already awarded and ongoing, the scope of the audit was limited to contract administration issues and specific questions in the request related to a backlog of work and the contractor's reimbursement to the Government for the assistance of Government employees.

On February 4, 2000, the Defense Supply Center Columbus awarded a contract to EG&G Logistics to perform material distribution services at the Defense Distribution Depot Warner Robins, Georgia. The contract resulted from a public-private competition under Office of Management and Budget Circular No. A-76, "Performance of Commercial Activities." The fixed-price contract, valued at about \$44.1 million, had a 4-month transition period beginning in May 2000 followed by a 3-year base period and a 2-year option period. The contractor assumed responsibility for distribution services at the Defense Distribution Depot Warner Robins, Georgia, on September 1, 2000.

**Results.** The material distribution services contract at the Defense Distribution Depot Warner Robins, Georgia, was not adequately written regarding contractor performance, and the Defense Logistics Agency did not provide adequate contractor oversight. The contract did not allow for reduced payment to the contractor when the contractor:

- did not deliver 75 percent of 3,397 expedited orders within the required 1 hour over a 12-week period,
- achieved only 36 percent to 81 percent per month of acceptable performance levels over a 14-month period,
- did not submit 11 (26 percent) of 42 monthly quality assurance reports, and
- did not implement a revised quality assurance customer satisfaction plan until 21 months after contract award.

In addition, the contract needed to be modified to include acceptable contractor performance levels for care of supplies in storage, quality assurance, and customer responsiveness. The Defense Logistics Agency also needed to: develop a specific quality assurance surveillance plan, develop an individual training plan for personnel to oversee the contract, provide adequate guidance to manage the plan, and effectively manage the transition from DoD to contractor personnel. As a result, Defense Logistics Agency customers did not receive proper support and incurred unnecessary costs. In addition, the Defense Distribution Center New Cumberland miscalculated and did not collect about \$4,138 in reimbursement from EG&G Logistics for the use of Defense Logistics Agency personnel to eliminate a backlog that EG&G Logistics allowed to develop immediately after taking over the distribution function.

In positive actions, the Defense Distribution Depot Warner Robins, Georgia, completed and implemented a specific quality assurance surveillance plan effective April 1, 2002. Also, the Defense Distribution Center New Cumberland deducted \$4,138 from the EG&G Logistics May 2002 invoice to recover the full cost of the Defense Logistics Agency employees that assisted in eliminating the backlog.

**Management Comments and Audit Response.** We received comments from the Director, Logistics Operations, Defense Logistics Agency and the Deputy Chief of Staff, Installations and Logistics, United States Air Force. The Director, Logistics Operations generally concurred with our recommendations stating the Defense Logistics Agency was assessing whether incentive and deduct provisions could be used in public-private competition in a manner that assures fair treatment for both private and public offerors. The Director, Logistics Operations did not agree that an additional measure of customer service was necessary. The Deputy Chief of Staff, Installation and Logistics stated that it is essential that Defense Logistics Agency personnel coordinate closely with their Air Force counterparts at Robins Air Force Base to eliminate the deficiencies identified in this report. See the Finding section of the report for the details of the management comments and the Management Comments section for the complete text of management comments.

We believe that incentive and deduct provisions can be used in public-private competitions and that developing an additional measure of customer service would be beneficial to the customer. We revised our recommendations to clarify our intent that the Defense Logistics Agency include incentive and deduct provisions to tie contractor performance to contractor payment. We request that the Defense Logistics Agency provide comments on the unresolved recommendations by December 20, 2002.

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## Background

The audit was performed in response to a request from Senators Max Cleland and Zell Miller and Representative Saxby Chambliss, who were concerned about contractor performance on the distribution and warehousing contract at the Defense Distribution Depot Warner Robins, Georgia (DDWG). The contract resulted from a public-private competition under Office of Management and Budget Circular No. A-76, "Performance of Commercial Activities," August 4, 1983. Because the contract was awarded and ongoing, the scope of the audit was limited to contract administration issues and specific questions in the request related to a backlog of work and the contractor's reimbursement for the use of Government employees.

**Contract Award.** In March 1998, the Defense Logistics Agency (DLA) announced that most of its distribution depots would undergo public-private competition under Office of Management and Budget Circular No. A-76. In FY 1998, three public-private competitions for distribution depots were started, which were considered prototype studies. DDWG was the third of 16 sites to complete the process and the largest of the initial 3 prototype sites. The remaining depots are being competed in phases over a 7-year period, ending in the spring of 2004. On February 4, 2000, the Defense Supply Center Columbus, Ohio, awarded contract SPO700-00-D-4001 (later modified to SPO710-00-D-4001) to EG&G Logistics (EG&G) to perform material distribution services at DDWG. The fixed-price contract, valued at about \$44.1 million, had a 4-month transition period beginning in May 2000 followed by a 3-year base period and a 2-year option period. The contractor assumed responsibility for distribution services at DDWG on September 1, 2000.

**DDWG Operations.** DDWG is responsible for the distribution of material located at Warner Robins Air Logistics Center and provides worldwide support to customers in the U.S. Armed Forces as well as foreign military services. DDWG provides distribution and delivery services in support of depot-level maintenance for the F-15, C-5, C-130, and C-141 aircraft and Air Force operational units at Robins Air Force Base. Two organizations make up DDWG: the contractor, EG&G, which is responsible for the distribution function; and the Continuing Government Activity (CGA), which provides contractor surveillance and quality assurance over the contractor.

**CGA.** The CGA consists primarily of personnel that assumed their positions under reduction in force procedures as part of the A-76 process. The CGA reports to the Defense Distribution Center New Cumberland, Pennsylvania (DDC), which is the contract administration office. CGA personnel are responsible for informing the administrative contracting officer at DDC of any potential or actual problems. They provide contractor oversight on a daily basis. The CGA is staffed by 17 DLA personnel including a commander, a deputy commander, a contracting officer's representative, quality assurance evaluators, contracting officer's technical representatives, and other staff.

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**Workload.** Air Force workload constitutes about 90 percent of the distribution functions performed by DDWG. On-base issues to customers comprise about 60 percent of the issues. The performance work statement estimated the workload for 1999 at about 1.3 million transactions per year. According to the Distribution Standard System data, from January 16 through 22, 2002, EG&G processed about 18,000 transactions with a value of about \$7.4 billion. According to the performance work statement, the inventory at DDWG as of September 1998 had a total value of \$10.9 billion and consisted of 262,725 stock numbers.

## **Objectives**

The audit objective was to evaluate the contract administration of the warehousing and material distribution services contract at DDWG. We also determined the magnitude of the backlog of inventory when the contractor began operation in September 2000, and whether the contractor adequately compensated the Government for the use of Government employees. See Appendix A for a discussion of the audit scope and methodology, Appendix B for performance measurement, and Appendix C for a summary of issues and results.

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## Adequacy of Contract Administration

The material distribution services contract at DDWG was not adequately written regarding contractor performance, and DLA did not provide adequate contractor oversight. The contract did not allow for reduced payment to the contractor when the contractor:

- did not deliver 75 percent of 3,397 expedited orders within the required 1 hour over a 12-week period,
- achieved only 36 percent to 81 percent per month of acceptable performance levels (APLs) over a 14-month period,
- did not submit 11 (26 percent) of 42 monthly quality assurance reports, and
- did not implement a revised quality assurance customer satisfaction plan until 21 months after contract award.

In addition, the contract did not include acceptable contractor performance levels for care of supplies in storage, quality assurance, and customer responsiveness. DLA also did not develop a specific quality assurance surveillance plan, develop an individual training plan for personnel to oversee the contract, provide adequate guidance to manage the plan, and effectively manage the transition from DoD to contractor personnel. As a result, DLA customers did not receive proper support and incurred unnecessary costs. In addition, the Government did not collect about \$4,138 from the contractor for the use of Government employees that assisted in eliminating a backlog that developed immediately after the contractor assumed responsibility for the distribution function.

## Performance Measures

DLA could have more effectively measured contractor performance and influenced contractor behavior. The contract contained contractor performance measures that were poor indicators of customer service and that only addressed a portion of contract requirements. DDC and CGA personnel monitored the performance measures in the contract; however, the contractor received full payment regardless of whether or not the contractor achieved the APLs.

**Measuring Contractor Performance.** DLA personnel monitored contractor performance by comparing actual performance to the APLs stated in the contract. The contract identified multiple performance standards in the areas of receipts, issues, and inventory. APLs for each function were measured by the Management Information System, which uses transactional processing information from the Distribution Standard System. The APL measures were the primary means that DLA used for measuring contractor performance. However, the measures did not

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accurately reflect the services provided. Also, the contract did not include measures of some important contract requirements. See Appendix B for an explanation of performance measurement.

**Local Issues.** The contract did not effectively measure material distribution to local DDWG customers. About 60 percent of the workload at DDWG is supporting Air Force customers at Robins Air Force Base. The Air Force customer is concerned about the time from order to delivery and the accuracy of the order. Yet, the APLs measured warehousing functions rather than actual distribution. The issue APLs measured the time from when the contractor receives an order until a contractor employee removes the requested item from its storage location (pick time). The APL did not include delivery time. DDC should modify the contract to include a measure for delivery times for local orders. Additionally, the contract did not provide for expedited 1-hour delivery for local customers with a flying mission.

**Expedited 1-Hour Deliveries.** DLA personnel did not include a requirement for expedited 1-hour local delivery in the original contract. Subsequently, the contracting officer modified the contract to include expedited 1-hour local deliveries. The modification was ambiguous and ineffective. The modification allowed the contractor to charge the customer an additional amount for each expedited order, regardless of when the contractor delivered the order. In addition, the contractor often did not deliver expedited orders within the required 1 hour.

**Expedited 1-Hour Service.** DLA personnel's omission of an expedited 1-hour local delivery requirement could affect the Air Force's ability to maintain its aircraft. Several Air Force units at Robins Air Force Base have a flying mission, which sometimes requires the delivery of repair parts as soon as possible. Yet, the original contract only required the contractor to issue high-priority orders within a 1-day average. The contracting officer signed contract modification P00014 in December 2001 (effective date of April 2001) to require the contractor to make special high-priority shipments called "Red-Hot Rushes." The contracting officer referred to "Red-Hot Rushes" in the contract as XYZ shipments, which required the contractor to make delivery within 1 hour of order receipt.

**Modification.** The contracting officer prepared an ambiguous and ineffective modification for XYZ shipments. The modification was ambiguous because it called for 1-hour delivery, but only measured pick time, not delivery time. The modification was ineffective because it did not tie contractor payment to contractor performance in meeting the 1-hour performance requirement. The modification required the contractor to use the Air Force's Automated Material Tracking System for XYZ transactions. The Air Force's Automated Material Tracking System allows the receiver to scan a pallet of items upon delivery and provide an electronic record of when the contractor delivered an item. Despite the ability to measure actual delivery, the modification specified 1-hour delivery while the statement of work referred to pick time. Also, the modification allowed the contractor to charge more for the service, yet did not specify an additional

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APL that would measure the contractor's success rate. DDC should modify the contract to require the measurement of actual delivery and establish an APL.

**Costs.** The contract allowed the contractor to charge an additional amount for each XYZ order, regardless of when the contractor delivered the item. The purpose of the charge was to compensate the contractor for the additional labor, material, and vehicles necessary to perform expedited 1-hour delivery services. The contract required the contractor to deliver the XYZ item within 1 hour from the time that the contractor received the order. The compensation amount increased the contract line item from \$7.99 for a normal 1-day delivery to \$18.75 for the 1-hour delivery time. This increased the value of the contract by more than \$5 million. However, the contract did not require the contractor to accomplish the delivery within 1 hour to receive payment. The contractor received the additional payment regardless of whether it achieved the 1-hour standard. DDC should modify the contract to tie contractor performance to payment for XYZ transactions.

**XYZ Performance.** The contractor often did not deliver XYZ orders within 1 hour. CGA personnel informally measured contractor performance for XYZ transactions although that was not a contract requirement. From November 1, 2001, through January 17, 2002, CGA personnel compared the delivery time for XYZ orders to contract modification P00014 requirements. CGA personnel captured data for 67 days (which included weekend days). The contractor performed or received 3,397 XYZ orders. The contractor did not meet the 1-hour standard for about 75 percent of the 3,397 orders recorded, and the contractor delivered about 27 percent of the orders in more than 3 hours. As a result, the contractor charged more than \$27,000 for XYZ orders that were not delivered within 1 hour.

**Requirements Without APLs.** DLA personnel also used measures to monitor contractor performance that measured only a portion of the services specified in the contract. The contract did not include measures for care of supplies in storage (COSIS), quality assurance, and customer service.

**COSIS.** The contract did not contain performance measures for COSIS. COSIS is a program composed of a set of processes and procedures to ensure that material in storage is maintained in ready for issue condition or to prevent uneconomic deterioration of unserviceable material. COSIS activities are performed on stored material. COSIS includes maintaining, storing, and caring for material in storage; rotating material; replacing fallen material; and inspecting for visible defects, leaks, and broken exterior components. The contract did not measure the effectiveness or the timeliness of the COSIS functions. As a result, the contractor did not have an incentive to devote resources to this area. DDC should establish objective measures of contractor performance of COSIS requirements and tie contractor payment to performance.

**Additional Requirements.** In addition to COSIS, the contract did not include measures of contractor performance for quality assurance and customer service. The contract required that the contractor periodically submit quality control reports to CGA personnel documenting the contractor's quality control efforts. However, the contract did not contain a measure of the

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contractor's success at meeting quality requirements. Also, the contract did not include a measure of the contractor's responsiveness to customer inquiries. The contract provided contractor performance measures for the resolution of supply discrepancy reports and causative research. However, the contract did not measure the contractor's response time and the effectiveness in resolving customer inquiries. DDC should modify the contract to include measures of the effectiveness of the contractor's quality control and customer service.

**Influencing Behavior.** DLA did not have an effective means of influencing contractor performance. The material distribution services contract did not link contractor performance to contractor payment. The absence of monetary incentives limited the ability of DLA personnel to encourage better contractor performance and adherence to contract requirements. Regardless of how the contractor scored on the APLs, the contractor received the same payment. Federal guidance encourages the use of incentives for performance-based contracting.

**Criteria.** Federal Acquisition Regulation 37.601, "General," states, "Performance-based contracting methods are intended to ensure that required performance quality levels are achieved and that total payment is related to the degree that services performed meet contract standards." Further, performance-based contracts should ". . . (c) Specify procedures for reductions of fee or for reductions to the price of a fixed-price contract when services are not performed or do not meet contract requirements (see 46.407); and (d) Include performance incentives when appropriate." Also, Federal Acquisition Regulation 37.602-4, "Contract Type," states, "To the maximum extent practicable, performance incentives, either positive or negative or both, shall be incorporated into the contract to encourage contractors to increase efficiency and maximize performance (see Subpart 16.4)."

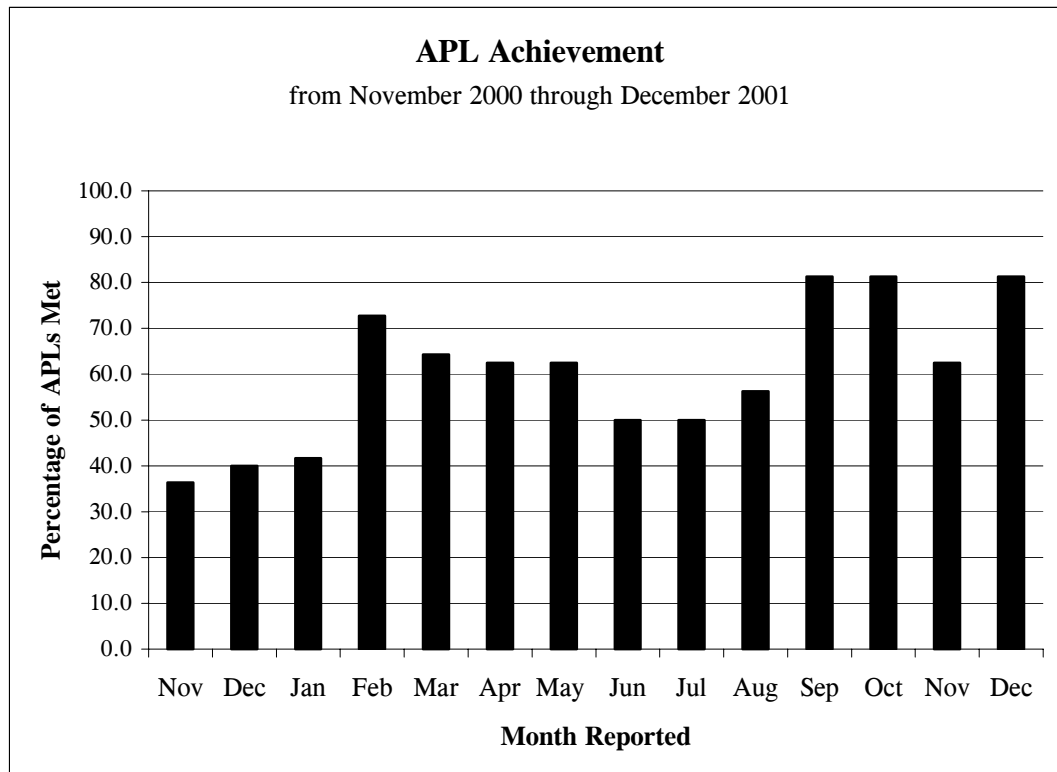
**Contract Incentives.** DLA did not include effective contractor incentives in the contract. The contract did not include incentives that tied contractor performance to payment. However, DLA personnel considered exercising the option years of the contract and the opportunity to claim good performance for future Government contracts as incentives for the contractor. Likewise, DLA considered disincentives such as not exercising the option years of the contract, termination actions, and difficulty in obtaining future Government contracts. Termination for convenience or for default was not a realistic option for DLA because of the potential disruption to customers. The incentives and disincentives cited by DLA personnel were not effective because they did not tie contractor performance to payment. The DLA needed to determine how to use incentive and deduct provisions in a public-private competition.

**Incentives for XYZ Orders.** DDC also did not include penalties or incentives in modification P00014 for XYZ deliveries. There were no penalties or even reduced payments for the time of delivery. Therefore, the CGA had difficulty encouraging the contractor to make timely deliveries and no way to enforce a penalty for not meeting the stated goals of the delivery. DLA should consider including incentives for future contracts.

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## Actual Performance

The contractor often did not meet APLs required by the contract. The CGA quality assurance evaluator prepared monthly status reports that cited 16 measures of performance. From November 2000 through December 2001, the contractor never met more than 13 of the 16 measures for any single month. The figure illustrates the frequency with which the contractor achieved APLs.



The APLs are a large part of measuring contractor performance and are a means of documenting contractor performance. The APLs identified in the contract were not goals. Rather, the acceptable performance levels are the levels of service that the contractor has agreed to provide the Government for a fixed price. During the period November 2000 through December 2001, the contractor only achieved from 36 percent to 81 percent of the acceptable performance levels for any single month. The contractor's failure to achieve the acceptable performance levels on a regular basis meant that the Government paid for services not provided by the contractor. However, there is little consequence for the contractor failing to maintain APLs. The contractor receives little benefit or suffers no penalty based upon performance measures. Inadequate oversight of the contractor by DLA personnel contributed to the contractor's poor performance. For additional information on contractor performance, see Appendix B.

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## Contractor Oversight

The DDC personnel did not provide CGA personnel with sufficient guidance to effectively monitor the contractor's performance at the DDWG. DDC personnel did not ensure that CGA personnel revised and implemented the quality assurance surveillance plan (QASP) and that CGA personnel were properly trained and had adequate guidance. Additionally, CGA personnel did not adequately document contractor performance.

**QASP.** As of January 2002, 23 months after contract award, DDC and CGA personnel had not revised the generic Quality Assurance Surveillance Plan to make it specific to DDWG. The QASP describes what the Government must do to ensure that the contractor performs in accordance with contract requirements. The QASP is a tool that assists in ensuring that the Government receives the quality of service called for under the contract and pays for only acceptable levels of service. Federal Acquisition Regulation 37.602-2, "Quality Assurance," states:

Agencies shall develop quality assurance surveillance plans when acquiring services (see 46.103 and 46.401(a)). These plans shall recognize the responsibility of the contractor (see 46.105) to carry out its quality control obligations and shall contain measurable inspection and acceptance criteria corresponding to the performance standards contained in the statement of work.

An effective QASP should include a surveillance schedule and clearly state the surveillance methods. The contract management plan cited the need to develop a QASP and provided some guidance. However, DLA personnel did not modify the QASP for DDWG. DDC personnel had not modified the generic QASP from the management plan, dated June 23, 1999. CGA personnel cited the lateness of the contractor's approved Quality Assurance Customer Satisfaction Plan (QA/CSP) as a contributing factor in the Government's late development of a QASP. In May 2002, DDC personnel stated that CGA personnel had completed and implemented a more DDWG-specific QASP in April 2002. DDC personnel should enforce the requirement for developing and implementing a QASP in a timely manner.

**CGA Personnel Readiness at Transition.** CGA personnel claimed that they did not receive adequate contract-related training before the contractor assumed responsibility. DDC personnel stated that individual development plans for CGA personnel were in place since May 2000. However, CGA personnel did not prepare individual development plans until January 2002, and CGA personnel stated that the only contract-related training that the contracting officer's technical representatives completed was an on-line contracting officer's representative course. DLA assigned personnel to the CGA as part of the Office of Management and Budget A-76 reduction in force process. CGA personnel came from supply backgrounds and did not have contractor oversight experience. According to DDC documentation provided in May 2002, CGA personnel attended an on-site quality assurance course and a monitoring contractor performance course and worked with a DDC assessment team shortly after the contractor assumed responsibility at DDWG.

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The Office of Federal Procurement Policy, "Guide to Best Practices for Performance-Based Service Contracting," October 1998, states:

Quality Assurance Evaluators must be fully qualified to meet the major responsibilities of the position: maintaining complete accurate documentation, a good relationship with the contractor, and thorough knowledge of the contract requirements. Experience and training are essential for effective surveillance.

The CGA personnel are an important management control over contractor performance. DDC personnel should develop and require that CGA personnel have an individual training plan that includes contract and information systems training in a timely manner.

**CGA Guidance.** The CGA did not have site-specific standard operating procedures or a surveillance plan. DDC personnel stated that they helped establish standard operating procedures for each of the CGA members. In addition, DDC stated that from September through November 2000, the DDC assessment team developed and provided surveillance plans to CGA personnel. However, CGA personnel were unaware of the plan when the auditors visited in August 2001 and January 2002. CGA did not have standard operating procedures that identified the duties and responsibilities of all personnel involved in contractor oversight. CGA personnel performed some inspections and interacted with the contractor on a daily basis. However, the inspections of contractor performance were irregular and poorly documented. DDC personnel should develop standard operating procedures for CGAs.

CGA personnel did not adequately document their surveillance efforts. CGA personnel monitored contractor performance primarily through monitoring Management Information System and Distribution Standard System data. The systems provide current information on the contractor's performance against issuing and receiving acceptable performance measures. A quality assurance evaluator provides an end-of-month report to the contractor identifying the APLs that the contractor achieved and those not achieved. The Management Information System data showed the contractor not meeting APLs; however, the Management Information System does not capture all contract requirements. Aside from the end-of-month reports or summaries of the Management Information System data, there was little evidence to show that CGA personnel had observed and documented how well the contractor provided distribution services for DDWG. DDC personnel should provide guidance to CGA personnel stressing the importance of documenting contractor surveillance.

**Discrepancy Reports.** CGA personnel rarely and inconsistently issued contractor discrepancy reports. The contract identifies the discrepancy report as the official form for documenting unsatisfactory performance for resolution. The contractor is required to provide a response and a remedy for the discrepancy noted. The CGA issued 12 contractor discrepancy reports from September 1, 2000, through January 26, 2001. The CGA did not issue a contractor discrepancy report again until October 19, 2001, almost 9 months later. This occurred during a period when the contractor was rarely achieving monthly APLs. When CGA personnel did use the discrepancy reports, they were not used to document

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unsatisfactory performance but to document security, computer, and inventory issues. CGA personnel should consistently issue discrepancy reports as a means of documenting contractor performance.

## **Contractor Quality Control**

DDC personnel did not enforce the contract requirement that the contractor develop and implement a QA/CSP in a timely manner. The contractor did not prepare an updated plan in a timely manner and did not follow the requirements from that plan. Further, during the first 6 months of use, the plan had identified only one quality problem despite the contractor not meeting APLs.

**QA/CSP Requirement.** The contractor did not adhere to contract requirements to revise and update its QA/CSP. The contract solicitation required the contractor to provide a QA/CSP that addressed how the contractor planned to meet contractor performance standards and comply with applicable regulations. The basic tenet of the plan was that the contractor was responsible for assuring quality. The solicitation required the contractor to submit a QA/CSP as part of its technical proposal and to continue to maintain the plan after contract award.

The contractor did not meet contract requirements to implement an approved QA/CSP until 21 months after contract award. The contractor submitted a quality assurance plan as part of its technical proposal in August 1999. However, that submission was broad and not specific. The contractor took over responsibility for operations at DDWG in September 2000 but did not submit a revised draft QA/CSP until June 2001. The contracting officer accepted that QA/CSP by contract modification in November 2001, 21 months after contract award.

**QA/CSP Implementation.** The contractor had not fully implemented its quality plan as of December 2001. The contractor did not begin submitting quality assurance reports to the Government until June 2001. At that point, the DDC had not yet approved the contractor's QA/CSP. The QA/CSP called for the contractor to provide the Government with 10 different reports that documented the contractor's quality assurance efforts. As of January 2002, the contractor had not submitted all of the required quality review forms to CGA personnel. From June 2001 through December 2001, the contractor did not provide 11 (26 percent) of 42 of the quality assurance samples required on a monthly basis. The contractor had failed only one of its quality assurance samples. However, from June 2001 through January 2002, the contractor still had trouble meeting APLs. For future contracts, DLA personnel should enforce the requirement for contractors to develop and implement a QA/CSP in a timely manner.

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## Transition

EG&G and DLA did not execute a smooth transition at DDWG. Difficulties during transition contributed to a backlog of work that developed shortly after the contractor assumed responsibility for distribution services. DLA assisted the contractor in eliminating the backlog but did not collect the correct amount of reimbursement from the contractor.

**Transition Issues.** During the transition, May through August 2000, a backlog of work quickly developed, and service to the Air Force customer deteriorated. This occurred because of the following.

- The contractor assumed responsibility on September 1, 2000. This was poor timing because the Air Force was processing many assets near the end of the fiscal year.
- The contractor proposed, and DLA agreed to, a 120-day transition period rather than the 180 days allowed in the contract.
- The contractor did not hire the number and quality of personnel planned. Contractor personnel were not familiar with the Distribution Standard System because the contractor had declined the required training on that system.
- The contractor took over on Labor Day weekend and did not work a full staff that weekend. The contractor conducted orientation and training for 2 more days. The contractor did not begin full operations until at least 5 days after September 1, 2000. As a result, a backlog of work developed.

The Government did not delay transition to the contractor despite the contractor's and the Government's failure to comply with the transition milestones. Contractor employees were not cross-trained, as promised in the proposal. Contractor personnel did not have adequate Distribution Standard System skills. For future contracts, the Government should not turn over the operation until the contractor has completed the items called for in the transition plan.

**Backlog.** Because EG&G and DLA did not execute an adequate transition, a backlog of work developed within weeks of contract turnover in September 2000. The backlog grew to about 14,000 items by October 4, 2000. The backlog included what DLA personnel claim is a normal day's work-in-process of about 4,000 items. The contractor claimed that they inherited a backlog of 20,000 items on September 1, 2000. DDC and CGA personnel claimed work-in-process was about 4,000 items on September 1, 2000. Anecdotal evidence supported something in-between. We were unable to determine the actual magnitude of the backlog. To restore customer service to pre-transition levels, DLA requested that employees from other DLA sites come to DDWG and assist the contractor in

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clearing the backlog. The contractor agreed to reimburse the Government for costs associated with the use of the DLA employees. See Appendix C for a summary of issues and results.

**DLA Actions Taken.** DLA has taken actions to prevent disagreements about the conditions at turnover for subsequent A-76 actions. DLA is now documenting work-in-process at turnover to the contractor. In addition, the contractor will now sign off during the final walk-through on the condition and level of work-in-process. Photographs are being used to document the state of facilities and inventory.

**Reimbursement for Government Employees.** DDC did not collect the correct amount of reimbursement from the contractor for DLA employees used to eliminate the backlog.

**Assistance.** DDC requested volunteers from DLA depots to assist the contractor in eliminating the backlog at DDWG in October 2000. The administrative contracting officer modified the contract to provide for the use of temporary duty DLA employees. This modification, P00006, also required the contractor to reimburse the Government for the labor, fringe benefits, and travel costs associated with the temporary duty employees. Thirty-five DLA employees assisted the contractor in eliminating the backlog from September 24 through October 13, 2000. According to the Distribution Standard System, the backlog was as high as 9,945 items on October 4, 2000, and when the last DLA employee departed, the backlog was down to less than 5,000 items or just over a single day's work-in-process. A normal day's work-in-process is about 4,000 items.

**Reimbursement Calculation.** DDC miscalculated the amount owed by the contractor by about \$4,138. The miscalculation involved the labor hours for the DLA temporary duty employees due to incomplete records received from the Norfolk depot and miscalculations of other labor records. At the conclusion of the effort, DDC personnel calculated a reimbursement of \$138,704.38 and withheld the amount from the EG&G November 2000 invoice. The calculation included travel, labor, and fringe benefits for the 35 employees. However, the Norfolk, Virginia, location did not forward its employees' complete labor records to DDC, resulting in a \$2,589 miscalculation. Also, DDC improperly reviewed other labor records, resulting in a \$1,549 miscalculation. As a result, the Government did not collect about \$4,138 from the contractor. See Appendix C for a summary of issues and results.

**DLA Corrective Actions Taken.** After we provided the detailed information, DDC deducted \$4,138.28 from the EG&G May 2002 invoice for use of the Government employees that assisted in eliminating the backlog.

## **Air Force Concerns**

Throughout the audit, Air Force personnel expressed their concern with several areas of contractor performance. Air Force personnel believed that the contract

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did not effectively meet customer requirements such as local delivery and 1-hour expedited deliveries. Air Force personnel also expressed concern about maintenance item transactions. Air Force personnel stated that they did not believe that DLA provided sufficient oversight of the contractor.

## Lessons Learned

DLA officials involved in the A-76 effort for the DLA distribution depots met on four occasions to discuss lessons learned from the first wave of A-76 actions. The attendees identified problem areas that arose during the earlier A-76 actions. They also identified suggestions for improving the process and avoiding similar problems in future A-76 actions. Areas discussed at the meeting included quality control, training, and penalties and incentives.

**Quality Control.** The requirement for quality control should be stated more clearly, and quality control should be included as an APL.

**Training.** The CGA needs to be formed early in the transition period to give people time to familiarize themselves with their new responsibilities. Also, the CGA needs to be allowed to tailor itself to its specific operations. The CGA needs more training and cross-training on contract issues to allow greater flexibility within the organization.

**Penalties and Incentives.** Penalties and incentives need to be incorporated into these contracts, and the approach to these items needs to be rethought. Deducts need to be built into the contract and be tied directly to the APLs.

## Conclusion

DLA did not effectively manage the material distribution services contract for DDWG. The contract did not effectively measure contractor performance, tie contractor payment to performance, and properly consider local customer requirements. DLA did not oversee a smooth transition from a Government-operated facility to a contractor-operated facility. Also, DLA did not establish an effective contractor oversight group. DDC did not provide standard operating procedures for CGA personnel, did not require the contractor to implement a QA/CSP, and did not require the Government to implement a site-specific QASP. DLA should consider these issues if the current contract is resolicited for DDWG and for future A-76 efforts. For other A-76 efforts, DLA personnel should:

- evaluate the use of incentives and disincentives and link contractor performance to contractor payment,
- consider the requirements of local customers more closely when developing the performance work statement,

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- require the CGA to develop and implement a specific QASP in a timely manner,
  - require that CGA personnel receive adequate contract training,
  - develop standard operating procedures for the CGA,
  - enforce the requirement for contractors to develop and implement a QA/CSP in a timely manner, and
  - turn over the operation only after the contractor has adequately completed the items called for in the transition plan.

## **Recommendations, Management Comments, and Audit Response**

**Revised Recommendations.** We revised Recommendations 1. and 2. to clarify our intent that the Defense Logistics Agency include incentive and deduct provisions to tie contractor performance to contractor payment.

**We recommend that the Commander, Defense Distribution Center New Cumberland require the administrative contracting officer to:**

**1. Modify contract SPO710-00-D-4001 to capture actual delivery time for all local deliveries including XYZ deliveries and include the requirement when the contract is resolicited.**

**Defense Logistics Agency Comments.** The Director, Logistics Operations, Defense Logistics Agency concurred, stating that DDC is working with the Air Force on the solicitation for the re-competition at DDWG and that DLA will capture delivery times, to the extent possible, and include the requirement in the new contract. The solicitation is scheduled to be released by mid-November 2002. However, the Director also stated that the Air Force's Automated Material Tracking System delivery times are unreliable. The system does not accurately measure deliveries made after closing, undeliverable packages, or expedited deliveries made without notice.

**Audit Response.** The Director's comments are partially responsive. We believe that the Air Force's Automated Material Tracking System is sufficiently reliable to use as a starting point. We agree that DDC should continue to work with the Air Force to develop a system that can better capture delivery data. However, since the contractor began operations in September 2000, the measurement of actual delivery, not warehousing time has been an issue. Measuring actual delivery time is important for the current contract and future contracts at Robins Air Force Base, as well as future A-76 competitions at Hill Air Force Base and Tinker Air Force Base. Commercial delivery activities such as United Parcel

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Service and Federal Express measure actual delivery time and are able to address nonresponsive recipients. We request that the DLA provide comments to the revised recommendation.

**2. Modify contract SPO710-00-D-4001 to tie contractor performance (achievement of acceptable performance levels ) to payment to include incentives and deduct provisions and include the requirement when the contract is resolicited.**

**Defense Logistics Agency Comments.** The Director, Logistics Operations concurred, stating that DDC is examining ways to tie payment to performance through a deduct provision. The Director also stated that DLA is assessing whether incentive and deduct provisions could be used in public-private competition in a manner that assures fair treatment for both private and public offerors.

**Audit Response.** The Director's comments are partially responsive. We believe that incentive and deduct provisions should be included in the contract. The acceptable performance levels identified in the contract are the levels of service that the contractor has agreed to provide the Government for a fixed price. During the period November 2000 through December 2001, the contractor only achieved from 36 percent to 81 percent of the acceptable performance levels for any single month. The contractor's failure to achieve the acceptable performance levels on a regular basis meant that the Government paid for services not provided by the contractor. Federal Acquisition Regulation 37.602-4, "Contract Type," states, "To the maximum extent practicable, performance incentives, either positive or negative or both, shall be incorporated into the contract to encourage contractors to increase efficiency and maximize performance (see Subpart 16.4)." A deduct provision would seem appropriate.

The Comptroller General has upheld that incentives and deducts are allowable in public-private competitions. In Crown Management Services, Inc., B-233365, B-233365.3, September 20, 1989, the contractor argued that the imposition of deductions is unfair to contractors when one must allow for the risks of substandard performance and resulting deductions from payment in their cost estimates. The decision stated "... there is no requirement that an A-76 cost comparison include a factor to equalize the competitive position of the government and commercial offerors with regard to potential deductions that may be made from a contractor's payments for defective performance." Also, in Bay Tankers, Inc., B-227965, B-227965.3, November 23, 1987, the decision stated,

Although the Government and commercial offerors must compete on the basis of the same PWS [performance work statement], they may be subject to different legal obligations regarding performance that causes the commercial concern to suffer a cost disadvantage where the contractor is subject to payment deductions for defective performance while the Government is not. There is no requirement that the cost comparison include a factor to equalize such inherent disparities. ... including a price factor in a cost proposal to offset potential payment deductions in the event of defective performance is something a commercial offeror elects to do at its own risk as a matter of business

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judgment. There is no requirement under A-76 cost comparison procedures that an agency add a similar factor to the in-house estimate.

Additionally, the A-76 Supplemental Handbook and the Office of Federal Procurement Policy refer to incentives and deductions in determining contract costs. We request that DLA provide comments to the revised recommendation that include the status on its assessment of the use of incentives and deduct provisions.

**3. Modify contract SPO710-00-D-4001 to establish objective measures of contractor performance for care of supplies in storage requirements, quality control, and customer service and include the requirement when the contract is resolicited.**

**Defense Logistics Agency Comments.** The Director, Logistics Operations concurred, stating DDC is working with the Air Force on the solicitation for the re-competition at DDWG. He stated that DLA will include objective measures of contractor performance for care of supplies in storage requirements and quality control; however, DDC believes the Supply Discrepancy Report acceptable performance level is the main indicator of customer service.

**Audit Response.** The Director's comments are partially responsive. The acceptable performance level for Supply Discrepancy Reports is a good measure of customer service, but Supply Discrepancy Reports do not measure the effectiveness and efficiency of contractor interaction with the customer in areas such as customer response time and proper resolution of customer inquiries. We request that DLA provide additional comments on the state of its action plan to develop additional measures of contractor performance for customer service.

**4. Enforce the requirement for developing and implementing a quality assurance surveillance plan in a timely manner for future contracts.**

**Defense Logistics Agency Comments.** The Director, Logistics Operations concurred, stating that the task will be completed for the re-solicitation of the DDWG contract and for all subsequent contracts not later than 30 days before the end of the transition period.

**5. Require that Continuing Government Activity personnel at the Defense Distribution Depot Warner Robins, Georgia, develop and implement an individual training plan that includes contract and information system training in a timely manner.**

**Defense Logistics Agency Comments.** The Director, Logistics Operations concurred, stating that DDWG personnel now have individual development plans in place. In future transitions, individual development plans will be in place before transition.

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**6. Develop standard operating procedures for Continuing Government Activity personnel at the Defense Distribution Depot Warner Robins, Georgia.**

**Defense Logistics Agency Comments.** The Director, Logistics Operations concurred, stating that DDC is developing a comprehensive concept of operations and a CGA Handbook, which is scheduled for completion in January 2003, and will be in time for the next transition period.

**7. Provide guidance to Continuing Government Activity personnel that stresses the importance of documenting contractor surveillance, including the use of contractor discrepancy reports.**

**Defense Logistics Agency Comments.** The Director, Logistics Operations concurred, stating that CGA training will be completed before transition to contract. A CGA Handbook is scheduled for completion in January 2003, and will be in time for the next transition period.

**8. Enforce the requirement for contractors to develop and implement a quality assurance customer satisfaction plan for future contracts in a timely manner.**

**Defense Logistics Agency Comments.** The Director, Logistics Operations concurred, stating that the DDWG re-solicitation and future solicitations will include a requirement for a locally tailored QA/CSP 60 days before the end of the transition.

**9. Turn over the operation only after the contractor has adequately completed the items called for in the transition plan for future contracts.**

**Defense Logistics Agency Comments.** The Director, Logistics Operations concurred, stating that language that provides the contracting officer the ability to delay transition if the contractor fails to meet transition milestones has already been developed for the performance work statement and will be enforced as necessary during all subsequent transitions and for the DDWG re-solicitation.

**Air Force Comments.** The Deputy Chief of Staff, Installation and Logistics, Headquarters United States Air Force concurred with the finding and recommendations stating it is essential that DLA personnel coordinate closely with their Air Force counterparts at Robins Air Force Base to eliminate the deficiencies identified in this report.

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## Appendix A. Scope and Methodology

We reviewed the administration of the Defense Supply Center Columbus, Ohio, contract SPO700-00-D-4001 (later modified to SPO710-00-D-4001) awarded to EG&G to perform material distribution services at DDWG. The contract, valued at about \$44.1 million, had a 4-month transition period beginning in May 2000, followed by a 3-year base period and a 2-year option period. Because the Office of Management and Budget A-76 public-private competition process was completed and the contract was already awarded, we reviewed only contract administration and specific questions related to a backlog of work and the contractor's reimbursement for the use of Government employees.

We reviewed the contract and other related documentation dated from April 1999 through May 2002. The documentation included contract modifications, monthly status reports, correspondence, invoices contractor discrepancy reports, and training records. We also reviewed payroll and travel records for the 35 DLA employees from 6 DLA facilities that assisted the contractor in eliminating the backlog from September 24 through October 13, 2000. We interviewed DLA personnel at the Defense Supply Center Columbus, Ohio; DDC; and DDWG. We also interviewed Air Force personnel from Robins Air Force Base and tenant units, as well as EG&G personnel at DDWG.

We performed this audit from July 2001 through June 2002 in accordance with generally accepted government auditing standards. The scope of the audit did not review the DLA self-evaluation of the management control program because the reviewed area was a single contract identified by the congressional request.

**Use of Computer-Processed Data.** We relied on data from the Distribution Standard System and the Management Information System. Although we did not perform a reliability assessment of the computer-processed data, we determined that the contractor performance information reported was supported by other audit documentation.

**General Accounting Office High-Risk Area.** The General Accounting Office has identified several high-risk areas in the DoD. This report provides coverage of the DoD Contract Management high-risk area.

### Prior Coverage

There were no prior audit reports related to this specific issue.

## Appendix B. Performance Measurement

**Acceptable Performance Levels.** DLA personnel measured contractor performance primarily through monitoring information from the Distribution Standard System and the Management Information System. The contract identified 25 different performance standards for receipts, issues, and inventory. The CGA personnel reported 15 of these 25 APLs on the end-of-month reports identified in Tables 1, 2, 3, and 4. The contractor and CGA focused on 11 primary APLs. These are listed in Tables 1, 2, and 3. The CGA focused on four main APLs that measure receipt functions (Table 1), four main indicators for issue functions (Table 2), and three main measures of inventory functions (Table 3). The Management Information System compiled the APL information daily. The CGA personnel then averaged and reported the APLs on a monthly basis. The measures reported in the end-of-month report were the primary means of tracking contractor performance.

**Receipt APLs.** The CGA used four APLs with five measures to monitor contractor performance in the area of receipts. See Table 1 for the type of activity, standard, APL, and measure for receipts APLs.

<b>Table 1. Receipt APLs</b>			
<b>Activity</b>	<b>Standard</b>	<b>APL (average)</b>	<b>Measure</b>
New procurement and retail returns	Tailgate/turn-in to stow and post to accountable record in less than 1 day on average	< 1 day	New procurement and retail return lines received per month
Wholesale returns and redistribution orders*	Tailgate/turn-in to stow and post to accountable record in less than 3 days on average	< 3 days	Wholesale returns and redistribution lines received
Receipts from maintenance	Tailgate/turn-in to stow and post to accountable record in less than 1 day on average	< 1 day	Receipts from maintenance processed per month
Unserviceable returns	Tailgate/turn-in to stow and post to accountable record in less than 3 days on average	< 3 days	Unserviceable return receipts processed per month
*Reported as two measures in the end of month report.			

**Issues APLs.** The CGA used four APLs, listed in Table 2, to measure contractor performance for issues. The contractor had a standard to meet for each of these APLs. The CGA averaged each APL over the whole month to rate how the contractor performed in each specific area of issues. See Table 2 for the type of activity, standard, APL, and measure for issue APLs.

<b>Table 2. Issue APLs</b>			
<b>Activity</b>	<b>Standard</b>	<b>APL (average)</b>	<b>Measure</b>
High priority MROs <sup>1</sup>	Receipt of MRO at depot to ship in less than 1 day on average	≤1 day	High priority lines issued per month
Routine MROs	Receipt of MRO at depot to ship in less than 1 day on average	≤1 day	Routine line items issued per month
DROs <sup>2</sup> shipped	Receipt of DRO at depot to ship in less than 21 days on average	≤21 days	DROs shipped per month
RCP <sup>3</sup> sales MROs	Receipt of MRO at depot to ship in less than 4.5 days on average	4.5 days	Lines issued for RCP sales customers per month
<sup>1</sup> MRO-Material Release Orders <sup>2</sup> DRO-Distribution Release Orders <sup>3</sup> RCP-Recycle Control Point			

**Inventory APLs.** The CGA used three APLs to reflect the contractor's performance in the area of inventory and warehousing efficiency. The CGA measured in percentages and computed each APL for a month to determine how the contractor performed in this area. See Table 3 for the type of activity, standard, APL, and measure for inventory APLs.

<b>Table 3. Inventory APLs</b>			
<b>Activity</b>	<b>Standard</b>	<b>APL (percent)</b>	<b>Measure</b>
Unscheduled inventories	Unscheduled inventories are completed within 15 days	95	Unscheduled inventories per month
Causative research	Investigations initiated by the causative research voucher or inventory adjustment voucher	95	Causative research lines per month
Warehouse fill rate	The right quantity, condition, and item is located to fill the material release orders	≥ 99.2	Material release orders per month

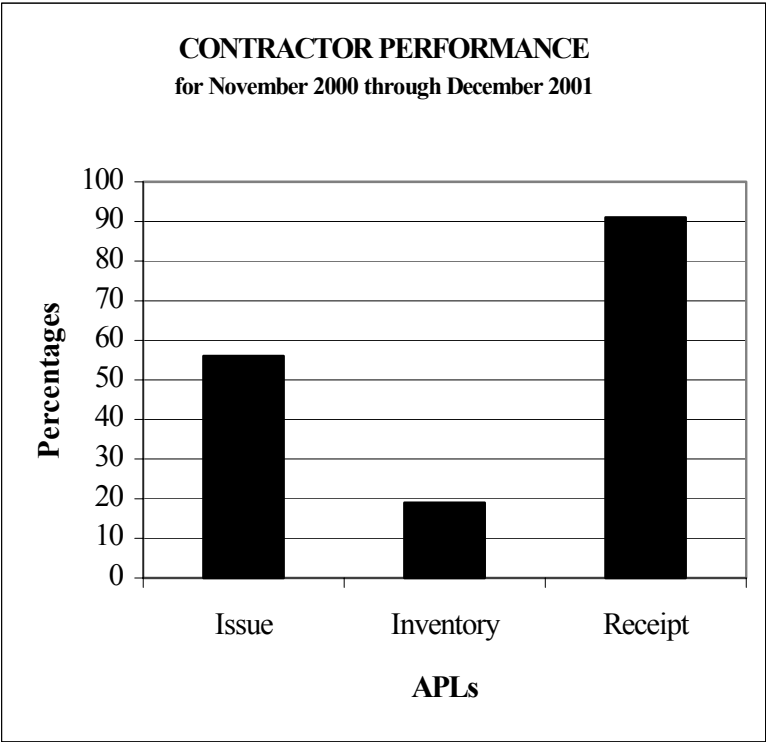
**Actual Performance.** The contractor often did not meet all acceptable performance levels.

**Receipt APLs.** The contractor met new procurements and retail returns for 10 of the first 14 months, or about 71 percent. For the wholesale returns, the contractor met the APL 100 percent of the time or 14 of 14. For redistribution orders, the contractor met the standard for 12 out of 14, or about 86 percent. The contractor met receipts from maintenance for 14 of 14 months, or 100 percent.

**Issue APLs.** The contractor met the high priority material release orders APL and routine material release orders APLs 6 out of 14 times, or about 43 percent. The contractor met distribution release orders APLs for 11 out of 11 months measured, or 100 percent. Finally, the contractor met receipt control point sales material release orders 6 out of 10 times, or 60 percent.

**Inventory APLs.** The contractor met the APL for unscheduled inventories for only 1 out of 14 months, or about 7 percent of the months measured. They met the APL for causative research for 5 out of 14 months, or about 36 percent and the warehouse fill rate APLs for 9 out of 14 times, or about 64 percent of the months measured.

From November 2000 through December 2001, the contractor met APLs for receipts about 91 percent of the time, for issues 56 percent of the time, and for inventory about 19 percent of the time. The figure below shows the percentages the contractor met the receipts, issues, and inventory APLs.



**Additional Reported APLs.** The CGA also included four other APLs in the end-of-month report. The APLs covered items from all three areas including receipts, issues, and inventory. See Table 4 for the type of activity, standard, APL, and measure for additional reported APLs.

<b>Table 4. Additional Reported APLs</b>			
<b>Activity</b>	<b>Standard</b>	<b>APL (percent)</b>	<b>Measure</b>
Location survey	National stock number matched the locator record	99	Locations surveyed per year
Open release orders	All open/averaged MROs <sup>1</sup> /RDOs <sup>2</sup> /DROs <sup>3</sup> must be shipped within 30 days	99	Open MROs/RDOs/DROs per month
Issue material	Material shipped is the correct item, quantity, and is shipped to the right customer	99.2	SDRs as percent of MRO/RDO shipped
SDR <sup>4</sup> research and resolution	SDR research must be completed within 45 days of receipt and respond to customer in same time frame	95	SDR amount received per month
<sup>1</sup> MRO-Material Release Orders <sup>2</sup> RDO-Redistribution Orders <sup>3</sup> DRO-Disposal Release Orders <sup>4</sup> SDR-Supply Discrepancy Report			

**APLs Not Reported.** The CGA did not include the APLs listed in the end-of-month report even though the contract included the APLs. See Table 5 for the type of activity, standard, and measure for the APLs not included in the end-of-month report.

**Table 5. APLs Not Reported**

<b>Activity</b>	<b>Standard</b>	<b>APL (percent)</b>	<b>Measure</b>
Unit price more than \$1,000	Physical inventory matches accountable records by national stock number	95	Items/lines counted at time of processing
Unit issue	Physical inventory matches accountable records by national stock number and quantity	90	Items/lines counted at time of processing
Date of last inventory	Physical inventory matches accountable records by national stock number and quantity	93	Items/lines counted at time of processing
Section D-other inventory	Physical inventory matches accountable records by national stock number and quantity	95	Items/lines counted at time of processing
Inventory classified and sensitive	Physical inventory matches accountable records by national stock number and quantity	100	Items/lines counted at time of processing
Inventory pilferable	Physical inventory matches accountable records by national stock number and quantity	100	Items/lines counted at time of processing
Overall inventory record accuracy rate	Physical inventory matches accountable records by national stock number and quantity	95	Items/lines counted at time of processing
Kit assembly	Kits contain all required material and are packaged properly	99	Kits completed per quarter
Scheduled inventories	Scheduled inventories completed within 30 days (maximum 45 days)	95	Scheduled inventories per month
Investigation of financial liability	Investigation of financial liability and DD Form 200 completed within 10 days from notification	100	All financial liability investigations initiated per quarter

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## Appendix C. Summary of Issues and Results

The results of the issues raised in the congressional request that the contractor at DDWG allowed a large backlog to develop and that the contractor did not adequately reimburse the Government for their use of DLA employees are discussed below.

**Issue 1.** A backlog of between 1,800 and 20,000 line items to be processed developed at DDWG at contract takeover on September 1, 2000.

**Results.** Substantiated. DDWG developed a backlog that was in the range of 2,000 to 20,000 line items to be processed, or work-in-process. Documentation obtained from the Distribution Standard System indicated that the backlog was about 2,200 items at contract takeover. Testimonial evidence suggested that the number could have been higher due to items not being entered properly into the Distribution Standard System. EG&G contended that the backlog was in the neighborhood of 20,000 line items. However, EG&G elected not to supply any documentation that supports this higher number. The exact number of the backlog could not be determined. DLA employees from other depots assisted the contractor at DDWG in resolving the backlog problem. Because DLA and EG&G had reduced the backlog to a manageable amount by January 1, 2001, we did not pursue this point further.

**Issue 2.** DLA employees assisted the contractor in eliminating the backlog that developed at DDWG without proper reimbursement.

**Results.** Partially substantiated. DLA employees assisted the contractor in eliminating the backlog at DDWG without full reimbursement. Personnel from other depot sites assisted the contractor on a temporary duty basis and assisted in eliminating the backlog situation. The contractor reimbursed DLA \$138,704.38 for the use of the employees through a modification to the contract. However, incomplete records supplied by the Norfolk, Virginia, depot and computing mistakes by DDC resulted in a miscalculation of the reimbursement amount. The DDC calculation underestimated the amount owed by the contractor to the Government by about \$4,138. See the Finding section for additional details.

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## **Appendix D. Report Distribution**

### **Office of the Secretary of Defense**

Under Secretary of Defense for Acquisition, Technology, and Logistics  
Director for Acquisition Initiatives  
Under Secretary of Defense (Comptroller)/Chief Financial Officer  
Deputy Chief Financial Officer  
Deputy Comptroller (Program/Budget)

### **Department of the Army**

Auditor General, Department of the Army

### **Department of the Navy**

Naval Inspector General  
Auditor General, Department of the Navy

### **Department of the Air Force**

Assistant Secretary of the Air Force (Financial Management and Comptroller)  
Auditor General, Department of the Air Force

### **Other Defense Organizations**

Director, Defense Logistics Agency  
Commander, Defense Distribution Center New Cumberland  
Commander, Defense Supply Center Columbus

### **Non-Defense Federal Organizations**

Office of Management and Budget

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## **Congressional Committees and Subcommittees, Chairman and Ranking Minority Member**

Senate Committee on Appropriations  
Senate Subcommittee on Defense, Committee on Appropriations  
Senate Committee on Armed Services  
Senate Committee on Governmental Affairs  
House Committee on Appropriations  
House Subcommittee on Defense, Committee on Appropriations  
House Committee on Armed Services  
House Committee on Government Reform  
House Subcommittee on Government Efficiency, Financial Management, and Intergovernmental Relations, Committee on Government Reform  
House Subcommittee on National Security, Veterans Affairs, and International Relations, Committee on Government Reform  
House Subcommittee on Technology and Procurement Policy, Committee on Government Reform

Honorable Max Cleland, U.S. Senate  
Honorable Zell Miller, U.S. Senate  
Honorable Saxby Chambliss, U.S. House of Representatives

# Department of the Air Force Comments



DEPARTMENT OF THE AIR FORCE  
HEADQUARTERS UNITED STATES AIR FORCE  
WASHINGTON, DC

: 6 SEP 2002

MEMORANDUM FOR ASSISTANT INSPECTOR GENERAL FOR AUDITING, OFFICE  
OF THE INSPECTOR GENERAL, DEPARTMENT OF DEFENSE

FROM: HQ USAF/IL  
1030 Air Force pentagon, RM 4E260  
Washington, D.C 20330-1030

SUBJECT: DoDIG Draft Report, "Material Distribution Services Contract at the Defense  
Distribution Depot, Warner Robins, Georgia (Project Code D2001CK-0144)

This is in reply to your memorandum requesting the Assistant Secretary of the Air Force  
(Financial Management and Comptroller) to provide Air Force comments on subject report.

We concur with the findings and recommendations of this audit. It is essential that DLA  
personnel coordinate closely with their Air Force counterparts at Robins AFB to eliminate the  
deficiencies identified in the subject report.

For additional information, please contact Bobby Buckles, HQ USAF/ILGP,  
(703) 695-9798.

  
MICHAEL E. ZETTLER  
Lieutenant General, USAF  
DCS, Installations & Logistics

cc:  
SAF/FMPF  
HQ AFMC/I.G  
HQ DLA/J-34X

# Defense Logistics Agency Comments



REPLY  
REFER TO J-3

**DEFENSE LOGISTICS AGENCY**  
HEADQUARTERS  
8725 JOHN J. KINGMAN ROAD, SUITE 2533  
FT. BELVOIR, VIRGINIA 22060-6221

AUG 27 2002

MEMORANDUM FOR ASSISTANT INSPECTOR GENERAL FOR AUDITING  
DEPARTMENT OF DEFENSE

SUBJECT: Material Distribution Services Contract at the Defense Distribution Depot Warner  
Robins, Georgia (Project No. D2001CK-0144)

This is in response to the subject draft report dated June 28, 2002. If you have any questions,  
please contact Ms. Sharon Nelson, (703) 767-6267.

A handwritten signature in black ink, appearing to read "Proctor".

HAWTHORNE L. PROCTOR  
Major General, USA  
Director, Logistics Operations

Encl

**DLA Comments to DODIG Draft Report of Material Distribution Services Contract at  
the Defense Distribution Depot Warner Robins, Georgia  
Project No. D2001CK-0144 dated June 28, 2002**

We have reviewed the draft of the proposed report; our comments follow. As a preliminary matter, we are concerned with the theme of the report that the contract and the contract oversight were “not adequate.” We recognize these were not ideal and can be (are being) improved, but, as will be explained below, we disagree with the characterization that they were inadequate. In addition to modifying this terminology, we also recommend the Executive Summary, the Background, and the Conclusion clearly state that DDWG was a prototype A-76 acquisition, and that DLA only selected one large depot for its “Round 1” effort specifically to test this effort before expanding it. There is no recognition of this point in the draft report, only one brief allusion to “prototype” (without explanation) in the Background section. We think this point is important since prototypes, by definition, are not born mature.

**Adequacy of Contract Administration**

The draft IG report states that the contract was not adequately written and DDC did not provide adequate oversight. As noted above, we recommend this be revised to state: “the contract requirements for contractor performance could have been better, and DLA contractor oversight could have been more aggressive.” The specific issues in this first paragraph are addressed in more detail throughout the draft report, and our responses on those specific points will follow in the appropriate section. We do not agree that the problems were as bad as characterized in the draft report, and note that, regardless of any differences of opinion on this point, DLA moved quickly to address problems that did arise. We have had various “lessons learned” programs and have made significant changes in subsequent A-76 acquisitions.

**Performance Measures**

The draft report states that “DLA did not effectively measure contract performance and influence contractor behavior.” We recommend this be revised to state that “DLA could have more effectively measured contractor performance and influenced contractor behavior.” We also recommend the first paragraph under this section reflect that, while improvements were possible, they were also limited by the inability of automated data systems to track delivery, as explained more specifically below.

**Local Issues**

The draft report states that “the contract did not effectively measure material distribution to local DDWG customers.” We recommend this statement be revised as follows: “The contract, while following standard DOD performance measures, did not capture delivery time to local customers due to limitations of existing data systems.” We recognize the importance our Air Force customer places on proof of delivery and timeliness of delivery; however, at the time of contract award, no system

was in place to measure delivery. Further, the contract was written using the current DoD standard performance measurements, which do not include delivery. Neither the AF nor DDC had a system to measure delivery times. The Air Force (AF) Automated Manifesting Tracking System (AMTS), which has been looked to as the source to provide this information, was developed to track asset visibility, not to provide proof of delivery and timeliness information. Adapting AMTS to track delivery timeliness is a work in progress between AFMC and DDC.

We also recommend the sentence in this section that “DDC should modify the contract to include delivery times for local orders” be revised to “DLA should work with the Air Force to develop ways to capture delivery in any modification or follow-on contract.”

**Expedited Deliveries**

The draft report states “the contractor often did not delivery expedited orders within the required one hour.” In fact, the contract does not require all expedited orders to be delivered in one hour. Rather, the standard for delivery of high priority orders is delivery within one hour of receipt at the depot. The acceptable performance level stipulated in the contract is less than or equal to one hour average per month. As an average, it is expected that not all deliveries will be within one hour, some will be greater, and some will be less. AMTS is not able to measure exceptions such as undeliverable packages or expedited deliveries without notice. These situations, some of which are outside the control of the contractor, skew average times produced by AMTS.

Although not an APL identified in the initial contract, all distribution centers have expeditors for the delivery of material. Specifically, paragraph 5.4.2 of the PWS provides a note regarding Air Force on-base issues and returns from maintenance. Inside this note the specific depot requirement for expediting delivery/pickup activity is outlined. Deliveries will be handled on a call-in basis and local issues will be delivered between the hours of 0730 and 1130, the day after they are ordered. We believe the contractor has performed to a substantial level regarding expedited deliveries and as such we were required to make payment.

**Modification**

The draft report states the modification was “misleading and ineffective.” We do not feel this is an appropriate characterization of the modification. In fact, the available Air Force systems to which the requirement for expedited services is tied are not capable of measuring expedited deliveries from requisition through delivery. As addressed at the May 14, 2002 meeting with the DODIG Team, the Administrative Contracting Officer (ACO) will explore available options in tying contractor performance to payment. We recommend that the report make a statement to the effect that “DLA should work with the Air Force to develop processes to better track delivery.”

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**Costs.** As noted in the paragraph dealing with Influencing Behavior, the contract did not contain a mechanism (other than the inspection of services clause) that would allow DDC to deduct for non-performance. Given the problems associated with AF deliveries (non-availability, requisitions after closing with no one available to receive materiel, etc.) and because we feel that EG&G has substantially performed as required, the ACO felt that any deduction under the inspection of services clause would have been subject to dispute. DLA is assessing whether incentive and deduct provisions can be used in a public-private competition in a manner that assures fair treatment for both the private and public offerors. We recommend, however, that report acknowledge the reason why such a provision was not included and provide us with the assurance that we need that such a provision would be appropriate in the context of a public-private competition.

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**Requirements Without APLs**

**COSIS**

Although, as the draft report notes, there is no separate APL for COSIS, the report should acknowledge that the COSIS program is measured through the CGA’s Quality Assurance Evaluator roles and through contractor discrepancy reporting, both of which give the contractor some incentive to perform. We will explore the possibility of a specific COSIS APL for Round 3 solicitations and in all re-competitions.

**Additional Requirements**

The draft report states that there is no measure for contractor performance of either quality assurance or customer service. While this is true, we believe that an approved Quality Assurance/Customer Satisfaction Plan along with monitoring the contractor’s performance, including how they identify problems and take time corrective action is a good reflection of the contractor quality assurance and customer service. That is, performance against contract metrics has been used as a measure of how well the contractor performs quality control. As of this time, EG&G submits monthly QC documentation. In view of the initial problems experienced at DDWG, future depot solicitations will include language requiring the performing activity to

revise QA/CSP during transition, tailoring it to the specific depot. Additionally, the DDC will examine additional measures of quality control in the re-solicitation.

Customer service is captured in the Supply Discrepancy Report APL. The DDWG Commander also monitors customer satisfaction through regular meetings and direct feedback from the AF. DDC will examine additional measures of customer service in the re-solicitation.

**Influencing Behavior**

DLA is assessing whether incentive and deduct provisions can be used in a public-private competition in a manner that assures fair treatment for both the private and public offerors. We recommend, however, that the report acknowledge the reason why such a provision was not included and provide us with the assurance that we need that such a provision would be appropriate in the context of a public-private competition. This assurance would seem to be a prerequisite to a finding that DLA was at fault for not having one. Conversely, if the final report cannot address the legality of such a provision in a public-private competition, it should be modified to state DLA should further explore this issue rather than state such a provision should have been included in the contract.

**Actual Performance**

We disagree with the statement that there is little consequence to the contractor when APLs are not met. The failure to meet APLs was cited in direct correspondence to the contractor along with DDC demands for their plans to improve performance and meet all APL requirements. Also, the contractor was required to pay for some of the services that were performed by Government personnel as provided for in the Inspection of Services Clause in the contract. Current actual performance has improved greatly. The contractor's failure to meet APLs in this solicitation was also a factor in past performance ratings on other A-76 solicitations during and shortly after the time these problems were occurring.

**Contractor Oversight**

The draft report states that DDC personnel did not provide CGA personnel with sufficient guidance to effectively monitor the contractor's performance at the DDWG. In fact, DDC expended considerable effort and funding to ensure CGA personnel would be able to perform their jobs starting September 1, 2000, and it is recommended that the report acknowledge these efforts. Both the ACO and the Contract Specialist met with each CGA member to advise them of their roles and responsibilities. Additionally, DDC personnel were on-site during both transition and actual performance to provide guidance to the CGA. In addition, the DDC training office developed IDPs for the CGA personnel in February, 2000, which were provided to the CGA in May 2000 and which have now been updated on several occasions.

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**QASP**

The report states, correctly, that a formal, customized QASP was not completed until May 2002. However, we recommend that the report be revised to recognize that the CGA did perform quality assurance even though the QASP was not formalized as soon as it should have been. Quality Assurance training was provided in August and September of 2000 and again in April 2001 to provide the CGA with the tools necessary to revise and implement the QASP, and this training equipped them to perform QA while still formulating the formal plan. The Quality Assurance Evaluators, Contracting Officer's Technical Representatives and the Contracting Officer's Representative performed thorough reviews of the contractor's operations and outcomes and subsequently analyzed and discussed numerous observations with the Contractor. These discussions with the Contractor resulted in significant improvements in both the quality and timeliness of the Contractor's performance. In March 2002, the CGA completed the final QASP with 24 attachments, 14 more than originally anticipated. The additional attachments were developed in order for the QASP to be more DDWG specific and to also measure indirect APL measurement indicators for a more thorough and effective QA program.

**CGA Personnel Readiness at Transition/CGA Guidance**

We recommend that the report be revised to reflect the significant effort expended by the DDC to ensure that CGA personnel were trained and prepared to perform contractor oversight. The report accurately reflects the documentation (provided at the May 14, 2002 meeting) that identifies the contractor monitoring course that was attended by ten CGA members in July 2000. With one exception, all members of the CGA associated with contractor oversight duties received Contracting Officer's Representative Training. One employee is currently taking the training and will be appointed as COTR only after successful completion. DDC feels these training courses, in addition to the QA training, establish a sound foundation for performing contractor oversight. The recommendation in the final sentence in this section of the report does not acknowledge that this training was provided.

Further, individual development plans (IDPs) have been in place for CGA personnel since May 2000. They were developed with the intent that they were to be more precisely tailored once individual experience and skills could be assessed. Since the stand-up of the DDWG CGA, DDC has developed a detailed matrix of core positions, duties and training requirements for CGA positions although actual training needs of individuals selected for these positions may vary.

In addition, an on-site DDC assessment team provided on-the-job type specialized experience to help establish standard operating procedures for each of the CGA members. In addition, a representative from the DLA Internal Review Office provided methods for documenting, monitoring, and evaluating contractor performance. Their review was accomplished from September through November 2000. Surveillance plans for monitoring and evaluating contractor distribution

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services were developed and provided to the CGA. Specific contract surveillance plans were developed for distribution receiving, issue, and storage functions. Plans were designed for monitoring and evaluating High Priority Materiel Requisition Order Issues, New Procurement and Return Receiving, Causative Research, Location Surveys, and Physical Inventories. The plans were based on specific contract requirements and APL standards and incorporated the use of DSS transaction and report data along with references from DDC Accountable Officer Handbooks. These surveillance plans were provided to the CGA during October and November 2000. It is recommended that the report reflect these significant efforts.

#### **Discrepancy Reports**

The report states that CGA personnel rarely issue contractor discrepancy reports, and that 12 were issued from September 1, 2000 through January 26, 2001. The lack of discrepancy reports does not indicate CGA failure to document contractor performance. In fact, the training provided to the CGA stressed the use of discrepancy reports as only one tool, and typically use be used as a last resort in most cases. As was evidenced in the files made available to the DODIG during their review, DDC both took and documented many aggressive actions to address concerns and require corrective action. A discrepancy report is used only when the contractor does not then take timely corrective action. While there are certainly instances where the immediate issuance of a discrepancy report is necessary, the vast majority of issues can and should be addressed to the Contractor and resolved on the spot. The overuse of discrepancy reports for minor incidents undermines the working relationship between the CGA and the Contractor that is necessary for success. It is recommended that the report acknowledge that in addition to the discrepancy reports, the CGA used alternate methods of documenting problems and requiring corrective actions. This standard operating procedure of using the discrepancy reports as a last resort was encouraged by the depot Commander, the ACO and the assessment team and is not a matter of lack of training for the CGA.

#### **Contractor Quality Control**

##### **QA/CSP Requirement**

DDC made several failed attempts to acquire a revised QA/CSP from the contractor. The revised plan was ultimately received in June 2001 and made part of the contract in November 2001. The QA/CSP is required by prospective offerors as part of the Technical Proposal. In the case of DDWG, EG&G's QA/CSP was evaluated and accepted by the Source Selection Evaluation Board and eventually made a part of the contract. However, this plan was little more than corporate strategy and could not be implemented. DDC worked with EG&G and ultimately convinced them of the need to submit a revised plan that could be implemented. While we concur that the CA/CSP should have been revised and provided earlier, as noted in the earlier section on "Requirements without APLs," monitoring the contractor's performance, as to

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how well how they identify problems and pursue corrective action is a good reflection of the contractor quality control, and was ongoing at DDWG.

### **Transition**

#### **Transition Issues**

Although we agree that the transition to a contractor operated facility was not smooth, we request that the report acknowledge that the DDWG solicitation was a pilot study and was the first large DLA distribution depot to go through the A-76 process. While we made every effort to accomplish a smooth transition, we were fully aware that it would be a learning experience that we would be able to leverage on subsequent solicitations. This has turned out to be true and every subsequent transition has been successively smoother. In addition, it should be noted that the transition plan for DDWG established milestones for hundreds of tasks. As noted in the report, the area of DSS training was deficient corrective actions on behalf of DDC and EG&G were taken. With this exception, EG&G completed every transition. Comments specific to the transition issues cited in the report follow.

#### **Backlog**

The report states that because EG&G and DLA did not execute an adequate transition, a backlog of work developed within weeks of contract turnover. As reflected in the report, some backlog existed at the time of turnover, and the backlog grew due to several separate situations. It can be argued that it is not feasible to expect no backlog to develop when a totally new workforce takes on an operation of the size and complexity of DDWG. As noted in the report, however, we have taken actions to better identify and control backlog for subsequent operation turnovers such as documenting the depot work-in-process levels at turnover and requiring the performing activity to sign off on this documentation during the final walkthrough. In addition, we have introduced more detailed transition milestones into the PWSs and language that permits the ACO to delay transition if the contractor fails to meet transition milestones.

#### **Reimbursement for Government Employees**

DDC has deducted the uncollected amount from EG&G's Invoice No. 0025 dated June 3, 2002. The report should note that this represents on 3% of the amount due from EG&G. DLA had collected 97% of the amount DLA believed was due 18 months earlier, in November 2000.

### **Conclusion**

We recommend that many of the statement in the draft conclusion be re-case to reflect our commend made in specific earlier paragraphs. Many of the difficult lessons learned at DDWG have been incorporated into subsequent acquisitions and transitions with much

success, and many actions have been taken to improve contract administration and oversight and to restore customer support quickly to acceptable levels.

DDC will continue to invite customer participation during the development of the PWS and as members of the source selection teams. We invite contractors to use their own best practices in delivering the required services. We are developing more formal means of communicating feedback to our customers to ensure they understand how their input is incorporated into the PWS. In addition, we are expanding our customer outreach program in our current round of A-76 studies to include the DLA Customer Service Representatives co-located with the majority of our service depots.

**Recommendations**

Recommendation No. 1 – Concur. The DDC is currently working with the AF on the solicitation for the re-competition at DDWG. We will, to the extent possible consistent with the automated systems, capture delivery time and include this in the new contract.  
**ECD:** Solicitation is scheduled to be released by mid-November 2002.

Recommendation No. 2 – Concur. The DDC is currently working with the AF on the solicitation for the re-competition at DDWG. We will, to the extent possible consistent with the automated systems, measure actual delivery time and tie contractor payment to meeting that delivery time in the new contract.  
**ECD:** Solicitation is scheduled to be released by mid-November 2002

Recommendation No. 3 – Concur. The DDC is currently working with the AF on the solicitation for the re-competition at DDWG. We will include objective measures for performance of care of supplies in storage and quality control. The Supply Discrepancy Report APL is the main indicator for customer service.  
**ECD:** Solicitation is scheduled to be released by mid-November 2002

Recommendation No. 4 – Concur.  
**ECD:** This task will be completed for the re-solicitation and all subsequent contracts not later than 30 days prior to the end of the transition period.

Recommendation No. 5 – Concur.  
**ECD:** Ongoing. DDWG personnel now have Individual Development Plans in place. In future transitions IDPs will be in place prior to transition.

Recommendation No. 6 – Concur. In addition to developing a comprehensive CGA concept of operations, DDC is currently developing a CGA Handbook that will define operating procedures for CGA employees.  
**ECD:** A CGA Handbook is in development and scheduled to be completed in January 2003, which will be in time for next transition period.

Recommendation No. 7 – Concur.

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**ECD:** CGA training will be completed prior to transition to contract. As in recommendation 6 a CGA Handbook is in development and scheduled to be completed in January 2003, which will be in time for the next transition period.

Recommendation No. 8 – Concur. The full requirement for a QA/CSP has been revised substantially since the contract for DDWG services was developed. DDC will ensure the requirement for contractors to develop and implement a locally tailored QA/CSP is incorporated into all future solicitations

**ECD:** Language requiring submission of site specific QC/CSP not later than 60 days before the end of the transition is being developed and will be included in the DDWG re-solicitation (November 2002) and in all future solicitations.

Recommendation No. 9 – Concur. Revisions to PWS transition language provide the ACO the ability to delay transition if the contractor fails to meet transition milestones.

**ECD:** The language has already been developed and will be enforced as necessary during all subsequent transitions. This language will be included in the DDWG re-solicitation.

## **Team Members**

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