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Reimbursable Fees at Four Major Range and Test Facility Bases

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INSPECTOR GENERAL
DEPARTMENT OF DEFENSE
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MEMORANDUM FOR UNDER SECRETARY OF DEFENSE FOR ACQUISITION,
TECHNOLOGY, AND LOGISTICS
UNDER SECRETARY OF DEFENSE (COMPTROLLER)/DOD
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ASSISTANT SECRETARY OF THE AIR FORCE
(FINANCIAL MANAGEMENT AND COMPTROLLER)
DIRECTOR, TEST RESOURCE MANAGEMENT CENTER
NAVAL INSPECTOR GENERAL
AUDITOR GENERAL, DEPARTMENT OF THE ARMY

SUBJECT: Reimbursable Fees at Four Major Range and Test Facility Bases
(Report No. D-2011-044)

The DoD Office of Inspector General performed an audit of reimbursable fees at major range and test facility bases (MRTFBs) at the request of the Office of the Under Secretary of Defense for Acquisition, Technology, and Logistics, Test Resource Management Center. We visited four MRTFBs: one Army (West Desert Test Center at Dugway Proving Ground), one Navy (Naval Undersea Warfare Center Division Keyport), and two Air Force locations (Nevada Test and Training Range and Utah Test and Training Range).¹

Our objective was to determine whether MRTFB personnel charged reimbursable fees appropriately and in accordance with statutory, DoD, and Service requirements. The FY 2003 National Defense Authorization Act, section 232 instructed range test and evaluation facility personnel to charge DoD customers only for those costs that are directly attributable to the use of the facility or resource for testing under a particular program, over and above the institutional and overhead costs. The statutory requirements were included in the DoD Financial Management Regulation (DoD FMR) 7000.14-R. Service requirements did not differ from the DoD FMR. Specifically, our objective was to determine whether MRTFB personnel complied with the DoD FMR 7000.14-R, volume 11A, chapter 12, "Major Range and Test Facilities," when charging DoD users of the test facility for direct costs identifiable with a particular program. Direct costs included labor, contract labor (which includes a portion of general and administrative overhead), material, utilities, equipment, and supplies.

We reviewed accounting records, procedures, and practices to determine compliance with the DoD FMR charge policy. At each MRTFB location, we selected a sample of test events and analyzed the individual cost items associated with each event to determine whether direct costs were readily identifiable with the particular program.

¹ The Test Resource Management Center requested we review 5 MRTFBs (one Army, two Navy, and two Air Force); this report addresses 4 facilities (one Army, one Navy, and two Air Force) and the 5th facility (second Navy MRTFB) will be addressed during Project No. D2010-D000AB-0290.000, "Audit of Reimbursable Fees at Requested Major Range and Test Facility Bases."

MRTFB managers implemented the statutory requirement as incorporated into the April 2008 revised DoD reimbursable policy for range costs incurred for test and evaluation activities at MRTFB sites. Specifically, MRTFB personnel:

- used detailed processes for estimating and recording reimbursable range costs,
- established a standard rate for the reimbursable fees or range costs,
- included appropriate separation of duties and levels of authorization into the cost-tracking process to protect vulnerable areas.

As a result, DoD users were appropriately charged for costs that were directly identifiable with their particular program.

WEST DESERT TEST CENTER AT DUGWAY PROVING GROUND

West Desert Test Center (WDTC) officials performed 181 test events, valued at approximately \$44.9 million, during FY 2008. We reviewed 24 of the highest dollar value test events with charges totaling \$22 million.

WDTC established a standard rate for the reimbursable fees. According to WDTC officials, the rates used for tests during FY 2008 were established in FY 2006. We recommended that WDTC officials compare rates with other ranges such as Aberdeen Proving Ground and Yuma Proving Ground to determine how rates at those ranges were established. WDTC officials stated that they contacted other ranges and, as a result, they increased the rates at the WDTC for FY 2010.

WDTC officials used the Standard Operation and Maintenance Army Research and Development System (SOMARDS) to track expenses for test projects. SOMARDS is a combination of database files and accounting procedures and transactions with controls to ensure that expenses are appropriately charged to the test project.

WDTC officials used detailed processes for estimating and recording reimbursable range costs. WDTC officials assigned a project number that identifies the test customer, the job order number, and the amount expensed in FY 2008. An obligation summary report identified the test customer project number, detailed cost of each test item, and the type of expense for each test customer.

We determined that the test events consisted of charges that were direct costs and clearly identifiable with a particular program and that the itemized charges in the SOMARDS test report were appropriate. Test report itemized charges were grouped in major categories such as civilian labor, Government credit card purchases, and contracting support. Personnel at the WDTC maintained effective controls, including building checks and balances into the cost-tracking process to protect vulnerable areas. For example, WDTC personnel performed internal reviews that included completed checklists that were in compliance with the DoD reimbursable policy for test and evaluation activities noted in the DoD FMR volume 11A, chapter 12, as revised in April 2008. The WDTC internal reviews did not detect any internal control deficiencies over reimbursable fees.

NAVAL UNDERSEA WARFARE CENTER DIVISION KEYPORT

During FY 2008, the Naval Undersea Warfare Center (NUWC) Keyport officials engaged in 133 range events, primarily on-water or water-based research and development testing, totaling \$3.8 million. Range systems used for testing included tracking systems that provided time-space-position information, fire control systems to program torpedoes, and launch systems used to transfer torpedoes or test vehicles from firing craft. We selected the six largest of the NUWC Keyport events, valued at \$0.3 million, to review.

NUWC Keyport established a standard rate for the reimbursable fees by using direct product account unit (hours) rates to charge customers for range events. The test event was assigned a number of units for each direct product account to compute the cost of the test event. For the six test events, we determined that the range officials charged users of the test facility for direct costs that were identifiable with the particular test event.

NUWC Keyport personnel used detailed processes for estimating and recording reimbursable range costs. For example, on October 1, 2007, the NUWC Keyport comptroller set FY 2008 range product account unit rates and established the business model to estimate and collect range costs. Established rates required planned revenue to equal planned costs. The range manager was expected to adjust rates if necessary, so that revenue and costs achieve a break even position at fiscal year end. In accordance with NUWC Keyport guidance, rate adjustments were made with the approval of the NUWC Keyport comptroller based on internal guidance on FY 2008 range direct product unit rates.

We determined that the test events consisted of items that were direct costs and readily identifiable with a particular program. The more costly items included labor (both range craft support and technical support), fuel for range craft, and travel costs for mariners and other technicians. The labor costs were computed based on the number of staff hours on each range craft and included technical support. The labor costs were calculated for tasks directly attributable to the test event. NUWC Keyport maintained acceptable controls including building checks and balances into the cost-tracking process to protect vulnerable areas. For example, a primary NUWC Keyport control ensured that range branch officials verified that each employee charged time to the correct test event before the data was entered into the Defense Industrial Financial Management System (DIFMS) Support Services Query and Reporting system.² This resulted in customers being charged for legitimate, reimbursable expenses. Another NUWC Keyport control ensured that the range control office reviewed the input from branch operations personnel for accuracy and proper assignment of range event rates.

NEVADA TEST AND TRAINING RANGE

Nevada Test and Training Range (NTTR), Nellis AFB, Nevada, officials performed 17 test exercises during FY 2008 totaling \$1.01 million. We reviewed the six largest tests, with a total value of \$0.86 million, which represented 85 percent of the total dollar amount. NTTR program

² The DIFMS Support Services Query and Reporting system is a local Keyport system that is a feeder system to DIFMS.

officials stated that the range is used 90 percent of the time for training and 10 percent of the time for testing, but that testing functions had priority.

NTTR personnel used a detailed process for estimating and recording reimbursable range costs. NTTR tests consisted of individually charged items called Element of Expense/Investment Codes (EEIC) that represented a specific task and a corresponding dollar amount. Examples of higher dollar value EEIC tasks were range airtime and munitions. Customers were billed based on the number of units at the hourly rate to complete individual EEIC tasks. These tasks were combined to determine the total cost of the test. We compared the charges (described as the EEIC titles) in each test with the item in the range rate package and were able to match the charges confirming that they were direct costs and traceable to the specific test. We reviewed the charges for each of the selected tests and concluded that the charges were direct costs and clearly identified with each specific test.

NTTR was transitioning from the Range Cost Accounting System to Job Order Cost Accounting System II (JOCAS II).³ NTTR was in the process of establishing a standard rate for the reimbursable fees through JOCAS II. JOCAS II was expected to produce a catalog of product service rates and contain validation for range rates. The JOCAS II collects and stores data in database tables on the host computer system and processes the data to provide information for vouchers and bills. The detailed transactions are accumulated for each JOCAS II cost category (labor, product, and service costs). JOCAS II would build checks and balances into the cost-tracking process to protect vulnerable areas such as controls over automatic customer billing and rate validation. For example, JOCAS II will collect detailed transactions that record expenses related to specific job numbers. Further, JOCAS II job numbers will be established to track all expenses through completion of the project.

UTAH TEST AND TRAINING RANGE

Utah Test and Training Range (UTTR), Hill AFB, Utah, personnel performed 29 different tests during FY 2008 totaling \$5.1 million. We selected the six largest tests, valued at \$4 million, to review how the user charges were determined and whether the items charged were direct costs.

UTTR personnel used detailed processes for estimating and recording reimbursable range costs. The UTTR JOCAS II accounting system collected detailed transactions that recorded expenses related to particular tests and cost centers. The detailed transactions were accumulated into summarized transactions for each category of JOCAS II costs such as contractor labor, telemetry, microwave communications, and Global Positioning System survey costs.

UTTR personnel also established a standard rate for the reimbursable fees through a product or service provided by UTTR cost centers. The standard rate was computed based on a specified expenditure of resources and was assigned a product identification number (PIN) such as Telemetry Display (PIN TC600).

³ We limited our review of the NTTR Range Cost Accounting System as the system was being replaced with the JOCAS II system.

In addition, UTTR personnel maintained effective controls building checks and balances into the cost-tracking process to protect vulnerable areas. For example, UTTR personnel used JOCAS II summarized transactions for the creation of journal vouchers and automated customer billing. Another UTTR internal control was system manager validation of weekly unit and job order charges. An additional UTTR control was that an analyst compared the automated billing report with a budgeting summary report and with the customer's cost estimate to identify and correct discrepancies.

REVIEW OF WDTC, NUWC KEYPORT, NTTR, AND UTTR INTERNAL CONTROLS

WDTC, NUWC Keyport, NTTR, and UTTR internal controls over 42 tests reviewed, valued at \$27.2 million, were effective as they applied to the audit objectives.

AUDIT STANDARDS

We conducted this audit under Project No. D2009-D000AB-0111.000 from January 2009 to April 2009, but it was suspended to provide audit resources to higher priority, congressionally mandated audit projects. The audit resumed in September 2010 through January 2011. Generally accepted government auditing standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our conclusions based on our audit objectives.

AUDIT METHODOLOGY

We visited NUWC Keyport, Washington, NTTR Nellis AFB, Nevada, UTTR Hill AFB, Utah, and the West Desert Test Center at Dugway Proving Ground, Utah. At each location, we reviewed a list of test events conducted during FY 2008 and judgmentally selected tests with the highest dollar values from each range. We also reviewed range operations, the business office procedures, and test charges accounting records. We used this supporting documentation to determine whether MRTFBs were properly charging DoD users of the test facility for direct costs identifiable with a particular program in accordance with the DoD FMR volume 11A, chapter 12, revised April 2008.

USE OF COMPUTER-PROCESSED DATA

We used computer-processed data to perform this audit. Specifically, we used tables that were a summary of test events during FY 2008 generated by DIFMS Support Services Query and Reporting, SOMARDS, and JOCAS II systems, which included the date of the test and dollar amount and compared it with spreadsheets that provided a breakdown of the expenses for individual tests. Some of the expenses were calculated based on cost rates that were generated by cost estimates divided by the planned frequency of event multiplied by the number of units. We tested the accuracy of this data by comparing the total cost of an individual test from a summary spreadsheet with the supporting documentation that presented a breakdown of costs by cost centers. From these procedures, we concluded that the data were sufficiently reliable for our purposes of identifying direct costs to particular programs.

PRIOR COVERAGE

During the last 5 years, the DoD IG and the Air Force Audit Agency (AFAA) have issued 10 reports that discuss MRTFB fees. The subject Unrestricted DoD IG reports can be accessed at <http://www.dodig.mil/audit/reports>. Air Force Audit Agency reports can be accessed from .mil domains over the Internet at <https://afkm.wpafb.af.mil/ASPs/CoP/OpenCoP.asp?Filter=OO-AD-01-41> by those with Common Access Cards.

DoD IG

DoD IG Report No. D-2008-128, “Reimbursable Fees at the Major Range and Test Facility Bases,” September 10, 2008

DoD IG Report No. D-2007-036, “Report on Contracting Practices at the Major Range and Test Facility Bases,” December 27, 2006

AFAA

AFAA Report No. F2008-0002-FC3000, “Air Force Major Range and Test Facility Base Customer Rate and Institutional Cost Management,” January 31, 2008

AFAA Report No. F2008-0021-FBM000, “Air Force Major Range and Test Facility Base Customer Rate and Institutional Cost Management 30th Space Wing Vandenberg AFB, CA,” January 17, 2008

AFAA Report No. F2008-0023-FDD000, “Air Force Major Range and Test Facility Base Customer Rate and Institutional Cost Management Air Armament Center Eglin AFB, FL,” December 17, 2007

AFAA Report No. F2007-0063-FBS000, “Air Force Major Range and Test Facility Base Customer Rate and Institutional Cost Management 98th Range Wing Nellis AFB, NV,” September 4, 2007

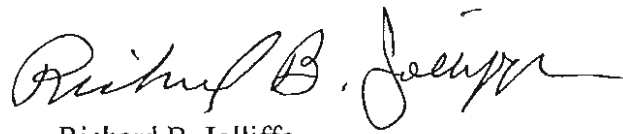
AFAA Report No. F2007-0050-FDD000, “McKinley Climatic Laboratory Customer Classification and Funding Air Armament Center Eglin AFB, FL,” June 12, 2007

AFAA Report No. F2007-0039-FCI000, “Air Force Major Range and Test Facility Base Customer Rate and Institutional Cost Management 388th Fighter Wing Hill AFB, UT,” May 15, 2007

AFAA Report No. F2007-0035-FCI000, “Air Force Major Range and Test Facility Base Customer Rate and Institutional Cost Management Air Force Flight Test Center Edwards AFB, CA,” May 9, 2007

AFAA Report No. F2006-0004-FC3000, “Implementation of the Fiscal Year 2003 National Defense Authorization Act, Major Range and Test Facility Base Funding Process,” August 23, 2006

We appreciate the courtesies extended to the staff. Please direct questions to me at (703) 604-9201 (DSN 664-9201). If you desire, we will provide a formal briefing on the results.

A handwritten signature in black ink, appearing to read "Richard B. Jolliffe". The signature is fluid and cursive, with a long horizontal stroke at the end.

Richard B. Jolliffe
Assistant Inspector General
Acquisition and Contract Management



Inspector General Department of Defense