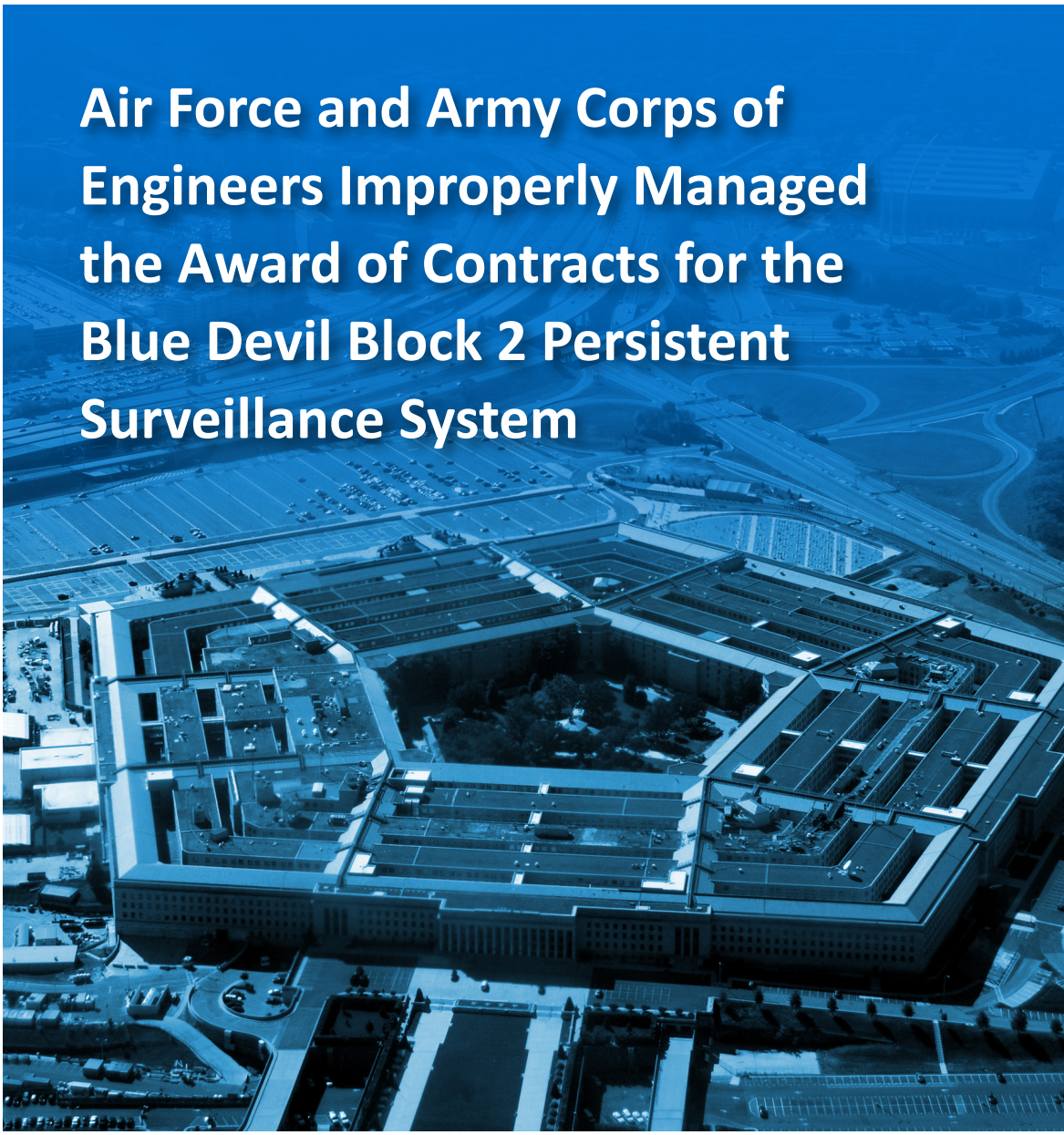
Report No. DODIG 2013-128

Inspector General

U.S. Department of Defense

SEPTEMBER 19, 2013

Air Force and Army Corps of Engineers Improperly Managed the Award of Contracts for the Blue Devil Block 2 Persistent Surveillance System



INTEGRITY ★ EFFICIENCY ★ ACCOUNTABILITY ★ EXCELLENCE

Report Documentation Page

Form Approved
OMB No. 0704-0188

Public reporting burden for the collection of information is estimated to average 1 hour per response, including the time for reviewing instructions, searching existing data sources, gathering and maintaining the data needed, and completing and reviewing the collection of information. Send comments regarding this burden estimate or any other aspect of this collection of information, including suggestions for reducing this burden, to Washington Headquarters Services, Directorate for Information Operations and Reports, 1215 Jefferson Davis Highway, Suite 1204, Arlington VA 22202-4302. Respondents should be aware that notwithstanding any other provision of law, no person shall be subject to a penalty for failing to comply with a collection of information if it does not display a currently valid OMB control number.

1. REPORT DATE **19 SEP 2013**	2. REPORT TYPE	3. DATES COVERED **00-00-2013 to 00-00-2013**
4. TITLE AND SUBTITLE **Air Force and Army Corps of Engineers Improperly Managed the Award of Contracts for the Blue Devil Block 2 Persistent Surveillance System**		5a. CONTRACT NUMBER 5b. GRANT NUMBER 5c. PROGRAM ELEMENT NUMBER
6. AUTHOR(S)		5d. PROJECT NUMBER 5e. TASK NUMBER 5f. WORK UNIT NUMBER
7. PERFORMING ORGANIZATION NAME(S) AND ADDRESS(ES) **Department of Defense Inspector General,4800 Mark Center Drive,Alexandria,VA,22350-1500**		8. PERFORMING ORGANIZATION REPORT NUMBER
9. SPONSORING/MONITORING AGENCY NAME(S) AND ADDRESS(ES)		10. SPONSOR/MONITOR'S ACRONYM(S) 11. SPONSOR/MONITOR'S REPORT NUMBER(S)
12. DISTRIBUTION/AVAILABILITY STATEMENT **Approved for public release; distribution unlimited**		
13. SUPPLEMENTARY NOTES		
14. ABSTRACT		
15. SUBJECT TERMS		

16. SECURITY CLASSIFICATION OF:			17. LIMITATION OF ABSTRACT	18. NUMBER OF PAGES	19a. NAME OF RESPONSIBLE PERSON
a. REPORT **unclassified**	b. ABSTRACT **unclassified**	c. THIS PAGE **unclassified**	**Same as Report (SAR)**	**54**	

Standard Form 298 (Rev. 8-98)
Prescribed by ANSI Std Z39-18

INTEGRITY ★ EFFICIENCY ★ ACCOUNTABILITY ★ EXCELLENCE

Mission

Our mission is to provide independent, relevant, and timely oversight of the Department of Defense that: supports the warfighter; promotes accountability, integrity, and efficiency; advises the Secretary of Defense and Congress; and informs the public.

Vision

Our vision is to be a model oversight organization in the federal government by leading change, speaking truth, and promoting excellence; a diverse organization, working together as one professional team, recognized as leaders in our field.

Fraud, Waste and Abuse

HOTLINE

1.800.424.9098 • www.dodig.mil/hotline

For more information about whistleblower protection, please see the inside back cover.

Results in Brief

Air Force and Army Corps of Engineers Improperly Managed the Award of Contracts for the Blue Devil Block 2 Persistent Surveillance System

September 19, 2013

Objective

Our audit objective was to determine whether Army Corps of Engineers and Air Force personnel properly awarded and administered contracts for the acquisition of the Blue Devil Block 2 surveillance system.

Figure. Blue Devil Block 2
Source: 645th Aeronautical Systems Group

Findings

Air Force personnel did not properly manage the award of contracts for the urgently needed Blue Devil Block 2 persistent surveillance system. Specifically, Air Force Intelligence, Surveillance, and Reconnaissance (Air Force A2) personnel improperly offloaded the award of the first Blue Devil Block 2 contract in August 2010, to the Army Corps of Engineers Engineer Research and Development Center (ERDC), instead of using Air Force program

Visit us on the web at www.dodig.mil

Findings Continued

and contracting personnel. This occurred because Air Force A2 personnel inappropriately acted in a program management capacity by disregarding Air Force Research Laboratory (AFRL) personnel's assessments that did not support the 24-month development schedule used to obtain approval and funding for Blue Devil Block 2.

In addition, 645th Aeronautical Systems Group (645th AESG) contracting personnel awarded the second Blue Devil Block 2 contract in March 2011, to develop and field Blue Devil Block 2 in an unachievable time frame. This occurred because the Director of Information Dominance Programs, Assistant Secretary of the Air Force for Acquisition (Director, SAF/AQI) inappropriately directed 645th AESG personnel in November 2010 to expedite fielding of Blue Devil Block 2 despite AFRL and 645th AESG assessments that determined the delivery time frame was unachievable and Blue Devil Block 2 was not suited for rapid fielding. As a result, the warfighter did not receive an urgently needed capability, and about $149 million was wasted on a system the contractor did not complete.

ERDC personnel improperly awarded a contract for Wide Area Surveillance Platform (WASP) on August 11, 2010. Specifically, ERDC personnel inappropriately awarded a level of effort research and development contract for a known Air Force and Joint Improvised Explosive Device Defeat Organization (JIEDDO) requirement. This occurred because ERDC personnel misused the broad agency announcement process. In addition, ERDC personnel did not properly administer the WASP contract. As a result, ERDC personnel initiated development of an Air Force system that included the development of a large airship without adequately assessing technical feasibility and cost, which contributed to the failure to fulfill an urgent operational need. Further, ERDC personnel charged about $1.1 million in questioned costs that were not commensurate with the amount of work performed.

Results in Brief

Air Force and Army Corps of Engineers Improperly Managed the Award of Contracts for the Blue Devil Block 2 Persistent Surveillance System

Recommendations

We recommend the Air Force determine whether Air Force A2 should be assigned a program or contracting office and only use the capabilities of the 645th Aeronautical Systems Group for systems appropriate for quick reaction contracting that can be accomplished in an achievable time frame.

We recommend the Army Corps of Engineers provide training to identify initiatives inappropriate for ERDC; develop stricter guidance for contract review; and review performance of the contracting officer who awarded the Blue Devil Block 2 contract; and refund the Air Force $1,137,000 in administrative fees unless an independent review substantiates that questioned costs were valid expenses.

Management Comments and Our Response

The Principal Deputy Assistant Secretary of the Air Force for Financial Management and Comptroller provided generally responsive comments to the draft report and agreed future acquisition initiatives will be assigned to and managed by the appropriate Air Force Program Office. Additionally, she

Management Comments and Our Response (cont'd)

concurred the 645th Aeronautical Systems group should only be used for efforts appropriate for quick reaction contracting.

Comments from the Principal Deputy Assistant Secretary of the Air Force for Financial Management and Comptroller, responding on behalf of the Chief of Staff of the Air Force, were not responsive to our recommendation to assess whether an Air Force program and contracting organization should be designated for quick reaction capability development and fielding of Intelligence, Surveillance, and Reconnaissance initiatives.

The Army Corps of Engineers Principal Assistant Responsible for Contracting–Winchester, provided responsive comments that included enhanced training as well as an incurred cost review of contract W912HZ-10-C-0085 by the Defense Contract Audit Agency. The Director, ERDC provided responsive comments that included enhanced oversight and guidance on proper use of the broad agency announcement and administrative action for personnel responsible for contract W912HZ-10-C-0085.

We request the Air Force provide comments in response to this report. Please see the recommendations table on the following page.

Recommendations Table

Management	Recommendations Requiring Comment	No Additional Comments Required
The Principal Deputy Assistant Secretary of the Air Force for Financial Management and Comptroller	A.1	
Director for Information Dominance Programs, Office of the Assistant Secretary of the Air Force for Acquisition		A.2.a, A.2.b
Army Corps of Engineers Principal Assistant Responsible for Contracting–Winchester		B.1.a, B.1.b, B.1.c
Head of the Contracting Activity for the Army Corps of Engineers Engineer Research and Development Center		B.2.a, B.2.b

*Please provide comments by October 21, 2013.

INSPECTOR GENERAL
DEPARTMENT OF DEFENSE
4800 MARK CENTER DRIVE
ALEXANDRIA, VIRGINIA 22350-1500

September 19, 2013

MEMORANDUM FOR UNDER SECRETARY OF DEFENSE FOR ACQUISITION, TECHNOLOGY, AND LOGISTICS
ASSISTANT SECRETARY OF THE AIR FORCE (FINANCIAL MANAGEMENT AND COMPTROLLER)
AUDITOR GENERAL, DEPARTMENT OF THE ARMY

SUBJECT: Air Force and Army Corps of Engineers Improperly Managed the Award of Contracts for the Blue Devil Block 2 Persistent Surveillance System (Report No. DODIG-2013-128)

We are providing this final report for your review and comment. This report discusses unsuccessful Air Force efforts to rapidly develop and field a persistent surveillance capability in response to joint urgent operational needs. Air Force and Army Corps of Engineers personnel improperly managed the award of contracts for Blue Devil Block 2. As a result, the warfighter did not receive an urgently needed capability and Air Force personnel wasted about $149 million on a system the contractor did not complete.

We considered management comments on a draft of this report when preparing the final report. DoD Directive 7650.3 requires that recommendations be resolved promptly. Comments from the Army Corps of Engineers were responsive, and we do not require additional comments. Comments from the Principal Deputy Assistant Secretary of the Air Force for Financial Management and Comptroller were generally responsive; however, comments on Recommendation A.1 were not responsive. Therefore, we request additional comments on this recommendation by October 21, 2013.

If possible, send a Microsoft Word document (.doc) file and portable document format (.pdf) file containing your comments to audcmp@dodig.mil. Portable document format copies of your comments must have the actual signature of the authorizing official for your organization. We are unable to accept the /Signed/ symbol in place of the actual signature. If you arrange to send classified comments electronically, you must send them over the SECRET Internet Protocol Router Network (SIPRNET).

We appreciate the courtesies extended to the staff. Please direct questions to me at (703) 604-8905/(DSN 664-8905).

Amy J. Frontz
Principal Assistant Inspector General for Auditing
Office of the Inspector General

Contents

Introduction

Objective 1

Background 1

Stakeholders for the Blue Devil Block 2 2

Review of Internal Controls 9

Finding A. Developing and Fielding Blue Devil Block 2 Under Accelerated Time Frames Were Not Effective 10

Assumption of Program Management Responsibility after Disregard of Technical Assessment 10

Lost Technical Expertise and Increased Costs 12

Acquisition Responsibility Transitioned Back to the Air Force 12

Expedited Fielding of a Developmental System in an Unachievable Time Frame 13

Inappropriate Assignment to the 645th AESG 14

Proper Administration of Second Contract 15

Airship Development Stops 16

Conclusion 17

Recommendations, Management Comments, and Our Response 17

Finding B. Army Engineer Research and Development Center Was Not the Appropriate Place for Developing a Persistent Surveillance Airship 20

Improper Use of the Broad Agency Announcement to Acquire a Specific System 20

Avoiding Competition Requirements 21

Contract Technical Feasibility and Cost Assessments Were Inadequate 22

Contract Administration Needed Improvement 24

Implementation of Some Corrective Actions 25

Conclusion 25

Recommendations, Management Comments, and Our Response 26

Contents (cont'd)

Appendixes

Appendix A. Scope and Methodology 29

Review of Documentation and Interviews 29

Prior Coverage 30

Appendix B. Chronology of Important Events 32

Appendix C. ERDC Broad Agency Announcement: Geotechnical and Structures Lab Topic 10 37

Management Comments

Assistant Secretary of the Air Force for Financial Management and Comptroller Comments 38

Principal Assistant Responsible for Contracting–Winchester Comments 40

Army Corps of Engineers, Engineer Research and Development Center Comments 42

Acronyms and Abbreviations

44

Introduction

Objective

Our objective was to determine whether the Army Corps of Engineers and Air Force properly awarded and administered contracts for the acquisition of the Blue Devil Block 2 surveillance system. See Appendix A for the scope and methodology and prior coverage related to the objective.

Background

The Blue Devil Block 2 was an Air Force Intelligence, Surveillance, and Reconnaissance (Air Force A2) initiative to provide persistent surveillance by attaching an integrated multi-intelligence sensor platform to an airship. Air Force A2 personnel successfully developed Blue Devil Block 1, which attached an integrated multi-intelligence sensor platform to commercially available fixed-wing aircraft. Air Force A2 personnel developed Blue Devil Block 2 in response to multiple Joint Urgent Operational Needs and Air Force Urgent Operational Needs for persistent surveillance to detect improvised explosive devices. At 335 feet in length and a volume of greater than 1 million cubic feet, Blue Devil Block 2 was the largest airship in the world. Figure 1 depicts Blue Devil Block 2 during development.

Figure 1. Blue Devil Block 2
Source: 645th Aeronautical Systems Group

Air Force A2 personnel developed Blue Devil Block 2 as an operational demonstration of persistent surveillance. Blue Devil Block 2 was to be a semi-stationary airship capable of 5 to 7 days of surveillance attached with the sensor platform from Blue Devil Block 1. Air Force A2 chose the Polar 1000 as the airship for Blue Devil Block 2. As proposed, the contractor stated that the Polar 1000 airship could take off and land vertically and require fewer personnel to assist with landing than a traditional airship. Air Force A2 personnel became aware of the Polar 1000 during a 2009 briefing, "Wide Area Surveillance Platform

(WASP)," by ARES Systems Group, LLC. In response to the briefing, the Air Force A2 proposed attaching the sensor suite from Blue Devil Block 1 to the Polar 1000 airship,[1] creating Blue Devil Block 2.

Stakeholders for the Blue Devil Block 2

DoD personnel from the Air Force and the Army Corps of Engineers were involved in the acquisition of the Blue Devil Block 2. The primary organizations involved were:

- Air Force A2,
- Air Force Research Laboratory (AFRL) Headquarters (Wright Patterson Air Force Base, Fairborn, Ohio),
- Assistant Secretary of the Air Force for Acquisition (SAF/AQ),
- 645th Aeronautical Systems Group (AESG) (Wright Patterson Air Force Base, Fairborn, Ohio), and
- Army Corps of Engineers Engineer Research and Development Center (ERDC) (Vicksburg, Mississippi).

Additionally, personnel from the Intelligence, Surveillance, and Reconnaissance Task Force and the intelligence community were also interested in Blue Devil Block 2. Air Force A2 personnel began development of Blue Devil Block 2 with AFRL personnel and others in November 2009. ERDC personnel awarded a contract for research and development of the WASP in August 2010. The Director for Information Dominance Programs, Office of the Assistant Secretary of the Air Force for Acquisition (Director, SAF/AQI), directed 645th AESG personnel to take charge of the acquisition in November 2010. 645th AESG personnel awarded a contract to acquire Blue Devil Block 2 in March 2011. Then, 645th AESG personnel issued the contractor a stop work order for Blue Devil Block 2 on January 4, 2012. See Appendix B for a detailed description of significant events that occurred during the development of Blue Devil Block 2.

Assignment of the Rapid Acquisition Authority

The Secretary of Defense directed Rapid Acquisition Authority for Blue Devil Block 2 on September 30, 2010. The Secretary of Defense uses Rapid Acquisition Authority[2] to

[1] The contractor had never built the Polar 1000 airship. The contractor had demonstrated the concepts with a much smaller Polar 400 model.

[2] Public Law 107-314, "Bob Stump National Defense Authorization Act for Fiscal Year 2003,"required the Secretary of Defense to develop procedures for rapid acquisition and deployment of urgently needed items.

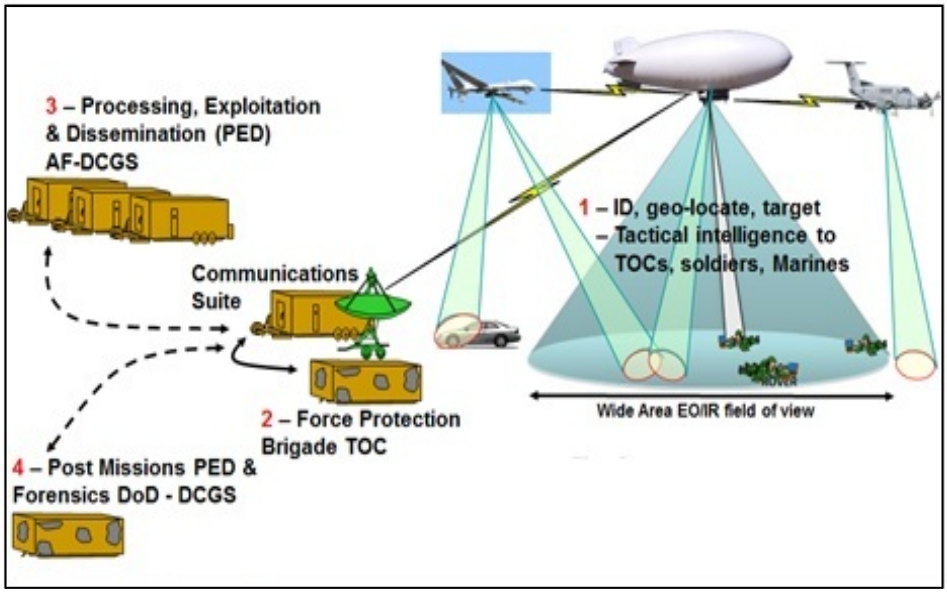
quickly acquire and deploy urgently needed equipment to reduce the risk of casualties. When using Rapid Acquisition Authority, any funds available to the Department of Defense for that fiscal year may be used. The Secretary of Defense may appoint a Responsible Senior Official with the authority to waive any provision of law[3] to accelerate fielding of urgently needed equipment. Air Force A2 personnel proposed delivery of Blue Devil Block 2 in 12 months. The Director, SAF/AQI, formally tasked 645th AESG personnel to rapidly develop and field Blue Devil Block 2 on December 22, 2010, after the Secretary of the Air Force requested the program transfer from the Army to an Air Force program office. The Secretary of Defense re-designated Senior Official Responsibilities of the Rapid Acquisition Authority to the Secretary of the Air Force on January 26, 2011.

Air Force Intelligence, Surveillance, and Reconnaissance

Air Force Mission Directive 1-33, "Deputy Chief of Staff of the Air Force, Intelligence, Surveillance & Reconnaissance," September 4, 2009, specified that the Deputy Chief of Staff for Air Force A2 serve as the focal point responsible for the end-to-end functional management of all Air Force intelligence, surveillance, and reconnaissance (ISR) capabilities. Air Force A2 is responsible for developing Air Force policies and guidance for developing and managing Air Force ISR activities, as well as ISR planning, programming, and intelligence force development. Air Force A2 reports directly to the Chief of Staff of the Air Force and also provides support to the Secretary of the Air Force and other Secretariat Offices. The Air Force A2 Directorate of ISR innovations is responsible for managing the rapid insertion of advanced technical solutions to peacetime and combat Air Force operations, as well as orchestrating quick response, deploying off-the-shelf imagery and geospatial capabilities, unmanned aerial systems, and targeting applications. However, Air Force A2 is not a program or contracting organization. Figure 2 portrays Air Force A2's operational concept for Blue Devil Block 2.

[3] Public Law 108-375, "Ronald W. Reagan National Defense Authorization Act for Fiscal Year 2005," clarified the Secretary or his designee must determine in writing the provision of law, policy, or directive that would impede a designated rapid acquisition. The waiver of authority is limited to laws, policy and directives, and regulations addressing: the establishment of the requirement for the equipment, the research development, test, and evaluation of the equipment, or the solicitation and selection of sources, and the award of contracts for procuring equipment.

Figure 2. Air Force A2 Blue Devil Block 2 Concept



Source: Air Force A2
Legend:

AF-DCGS	Air Force Distributed Common Ground Station
DoD-DCGS	Department of Defense Distributed Common Ground Station
EO/IR	Electro-Optical/Infrared
TOC	Tactical Operations Center

Joint Improvised Explosive Device Defeat Organization Capability Approval and Acquisition Management Process

Air Force A2 personnel began working Blue Devil Block 2 through the Joint Improvised Explosive Device Defeat Organization Capability Approval and Acquisition Management Process (JCAAMP) beginning in November 2009, to obtain program funding and approval. The purpose of the JCAAMP is to approve, develop, and quickly acquire counter-improvised explosive device initiatives. The Joint Improvised Explosive Device Defeat Organization's (JIEDDO) goal is to find and develop counter-improvised explosive device initiatives within 4 to 12 months and deploy and assess those initiatives within 6 to 24 months. Air Force A2 personnel estimated Blue Devil Block 2 could be delivered 12 months after receipt of funding at a cost of about $243 million (total included 12 months for airship development with a 12-month operational demonstration in Afghanistan). The Deputy Secretary of Defense approved Blue Devil Block 2 on May 15, 2010, but required Blue Devil Block 2 transition to a Service or agency or be terminated within 2 years of funding approval.

Air Force Research Laboratory

The AFRL website identified its mission as leading the discovery and development and integration of warfighting technologies for air, space, and cyberspace forces. AFRL's mission is supported by both the Air Vehicles and Sensors directorates. The Air Vehicles directorate develops and transitions technology solutions to enable dominant military aerospace vehicles. The Sensors directorate leads the discovery, development, and integration of affordable sensor and countermeasure technologies for warfighters. AFRL personnel presented their assessments of the Blue Devil Block 2 acquisition in April 2010 and again in October 2010.

Assistant Secretary of the Air Force for Acquisition

Headquarters Air Force Mission Directive 1-10 states that SAF/AQ "has overall responsibility for acquisition systems for the Department of the Air Force." SAF/AQ is responsible for basic research, applied research, and advanced technology development. Additionally, SAF/AQ is responsible for "contracting and is delegated the authority to enter into, approve, terminate, and take all other appropriate actions with respect to contracts and agreements and authority to issue, modify, or rescind contracting regulations under the Federal Acquisition Regulation (FAR)."

Director, Information Dominance Programs

The Director for Information Dominance Programs, Office of the Assistant Secretary of the Air Force for Acquisition (Director, SAF/AQI), is responsible for directing, planning, and programming for research, development, and acquisition of programs in the information dominance capability area. SAF/AQI's area of responsibility includes: airborne and ground-based command and control and combat support systems, airborne reconnaissance systems, unmanned aerial systems, information warfare/cyberspace systems, and future Command, Control, Communications, and Computer ISR capability programs from concept and technology development through production deployment and sustainment.

Air Force 645th Aeronautical Systems Group

645th AESG Life-Cycle Management Plan, January 8, 2008, states the 645th AESG is a SAF/AQ program and contracting resource that acquires, fields, and sustains aircraft, avionics, and specialized mission equipment that would not be available through traditional acquisition practices. Projects that are assigned to 645th AESG by SAF/AQ are typically high-priority efforts, involve a limited number of vehicles, consist of in-service engineering modifications to existing systems, and require unique logistics support or

system modifications. The 645th AESG balances urgent needs against available capability through use of an evolutionary acquisition strategy that acquires capability in spirals, with future capabilities and improvements added as technologies mature.

645th AESG personnel awarded contract FA8620-11-C-4024 on March 14, 2011, for Blue Devil Block 2. The contract required the contractor to build and integrate a persistent surveillance and reconnaissance capability consisting of an airship with a multi-sensor payload and a ground station for command and control of both airship and sensors. The contract was an undefinitized contractual action with a not-to-exceed value of $86.2 million. The contract specified a period of performance through January 31, 2012.

Army Corps of Engineers Engineer Research and Development Center

According to the ERDC website, ERDC conducts research and development in support of the Soldier, military installations, the Corps of Engineers' civil works mission, other Federal agencies, state and municipal authorities, and U.S. industries through innovative work agreements. ERDC conducts research and development in four major areas:

- military engineering,
- geospatial research and engineering,
- environmental quality and installations, and
- civil works and water resources.

ERDC personnel used broad agency announcement W912HZ-10-BAA-01 to solicit proposals for basic and applied research[4] for seven of the Corps laboratories and engineering centers. The broad agency announcement identified 136 research topics; one of the laboratories, the Geotechnical and Structures Laboratory, identified 23 research topics. ERDC received a proposal for WASP from ARES Systems Group on May 7, 2010, in response to ERDC's broad agency announcement. Specifically, ARES submitted the WASP proposal in response to research topic number GSL-10, "Geophysical Phenomenology–Multi-Modal Geophysical Phenomenology, Modeling,

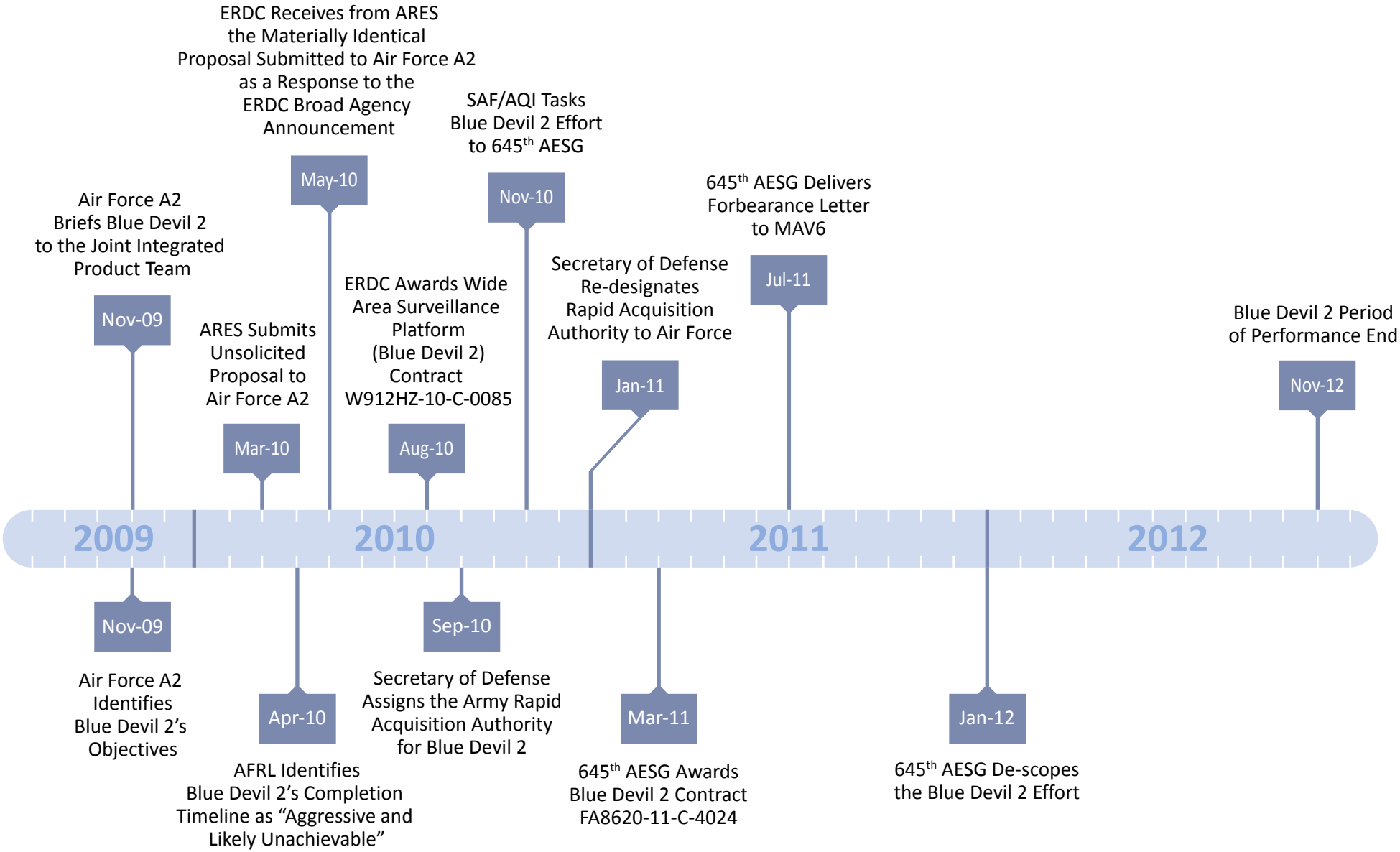
[4] **Basic research** is defined as research directed toward increasing knowledge in science with the primary aim being a fuller knowledge or understanding of the subject under study, rather than any practical application of that knowledge.

Applied research is the effort that normally follows basic research, but may not be severable from the related basic research; attempts to determine and exploit the potential of scientific discoveries or improvements in technology, materials, processes, methods, devices, or techniques; and attempts to advance the state of the art.

Data Processing, and Data Management." See Appendix C for the complete text of the research topic.

ERDC personnel awarded contract W912HZ-10-C-0085 on August 11, 2010, to MAV6 (previously ARES Systems Group). The contract was a $49.6 million cost-plus, fixed-fee research and development contract, funded by a combination of Air Force and JIEDDO funds. The contract called for the expansion of existing and potential technologies to new environments achieved through the implementation and in accordance with the contractor's proposal titled, "Wide Area Surveillance Platform (WASP) Capability." Figure 3 portrays the series of significant events during the development of Blue Devil Block 2.

Figure 3. Series of Significant Events for Blue Devil Block 2



Review of Internal Controls

DoD Instruction 5010.40, "Managers' Internal Control Program (MICP) Procedures," July 29, 2010, requires DoD organizations to implement a comprehensive system of internal controls that provides reasonable assurance that programs are operating as intended and to evaluate the effectiveness of the controls. We identified internal control weaknesses in the Air Force A2 and ERDC personnel's management of the award of contracts for the Blue Devil Block 2 surveillance system. Air Force A2 personnel inappropriately acted in a program management capacity and disregarded AFRL personnel's assessments that did not support the development schedule to obtain approval and funding for Blue Devil Block 2. ERDC contracting and technical personnel did not identify the WASP proposal as a specific system (Blue Devil Block 2) previously proposed to Air Force A2 that would have prevented ERDC personnel from awarding the contract using the broad agency announcement process. We will provide a copy of the final report to the senior officials in charge of internal controls in the Air Force and Army Corps of Engineers.

Finding A

Developing and Fielding Blue Devil Block 2 Under Accelerated Time Frames Were Not Effective

Air Force personnel did not properly manage the contract awards for the urgently needed Blue Devil Block 2 initiative. Specifically:

- Air Force A2 personnel improperly offloaded[5] the award of the first Blue Devil Block 2 contract in August 2010 to ERDC instead of using Air Force program and contracting personnel. This occurred because Air Force A2 personnel inappropriately acted in a program management capacity by disregarding AFRL personnel's assessments that did not support the 24-month development schedule used to obtain approval and funding for Blue Devil Block 2 during the JCAAMP.
- 645th AESG contracting personnel awarded the second contract FA8620-11-C-4024 in March 2011 to develop and field Blue Devil Block 2 in an unachievable time frame. This occurred because the Director, SAF/AQI, inappropriately directed 645th AESG personnel in November 2010 to expedite fielding of Blue Devil Block 2, despite AFRL and 645th AESG personnel's initial assessments that the 12-month delivery time frame was unachievable and Blue Devil Block 2 was not suited for rapid fielding.

As a result, the warfighter did not receive an urgently needed capability, and about $149 million was wasted on a system the contractor did not complete.

Assumption of Program Management Responsibility after Disregard of Technical Assessment

Air Force A2 personnel inappropriately assumed program management responsibility after they disregarded AFRL technical assessments that Blue Devil Block 2 could not be developed and fielded within the required time frame. Instead, Air Force A2

[5] The Government Accountability Office defines contract offloading as, "when one agency buys goods or services under a contract entered and administered by another agency." We use the term contract offloading to include instances of intra-DoD contract offloading; where DoD entities use contracting offices outside of normal agency channels to obtain contracting support not related to Economy Act orders.

personnel decided to use contracting support from ERDC for Blue Devil Block 2 despite ERDC personnel's lack of experience in airship development. Air Force A2 personnel's assumption of program management responsibility was inappropriate because Air Force A2 is a headquarters policy office responsible for program planning and advocacy without an assigned contracting office or authority to initiate and manage programs.[6] Program management, including development and production to satisfy an urgent requirement, was beyond the scope of Air Force A2 responsibilities. Air Force A2 personnel initially sought program and contracting support from AFRL in April 2010, because AFRL personnel worked with Air Force A2 to successfully field Blue Devil Block 1. A2 personnel planned to use the same quick reaction capability contracting methods that they used successfully with Blue Devil Block 1. AFRL personnel completed technical assessments of Blue Devil Block 2 in April 2010 and were aligned to support development with dedicated air vehicle and sensor directorates. However, AFRL personnel determined the 24-month time frame (12 months for airship development with a 12-month operational demonstration) established during the JCAAMP to be "aggressive and likely unachievable." AFRL personnel proposed a 34-month development schedule (24-month airship development with a 10-month operational demonstration) based on a competitive development time frame. Following the assessment, Air Force A2 personnel were unable to find a willing Air Force program and contracting office and decided to use ERDC contracting support and the ERDC broad agency announcement to meet the required time frame. Air Force A2 did not have a defined Air Force program and contracting source responsible for rapid developing and fielding of ISR innovations. The Chief of Staff of the Air Force should assess whether the need exists to designate a program and contracting office responsible for rapid development and fielding of ISR initiatives.

On May 7, 2010, in response to the ERDC broad agency announcement, ERDC contracting personnel received a proposal for the "Wide Area Surveillance Platform," which was essentially the same proposal as Air Force A2 received for Blue Devil Block 2. The proposal called for development of an airship and demonstration of a persistent surveillance capability within 12 months. On August 11, 2010, ERDC personnel awarded a $49.6 million research and development contract for WASP. Details about ERDC actions are discussed in Finding B.

[6] Headquarters Air Force Mission Directive 1-33, "Deputy Chief of Staff of the Air Force, Intelligence, Surveillance and Reconnaissance," September 4, 2009.

Lost Technical Expertise and Increased Costs

Air Force A2's decision to offload the Blue Devil Block 2 contract to ERDC increased costs and deprived the acquisition of the benefit of AFRL personnel's subject matter expertise. Before Blue Devil Block 2, AFRL personnel successfully participated in the development and fielding of Blue Devil Block 1. AFRL also had aeronautical engineering experience as well as experience with sensor technology. ERDC personnel did not have the expertise to assess the cost nor oversee the development of an estimated $243 million[7] airship initiative. ERDC personnel had experience and expertise in developing sensors but neither in developing airships. Air Force A2 personnel incurred additional fees by having ERDC personnel award and administer the contract for Blue Devil Block 2. ERDC is a reimbursable organization that charges sponsoring organizations, like Air Force A2, an administrative fee and cost reimbursement to award and administer contracts. In exchange for the fee, Air Force A2 was not constrained by the event-driven development schedule and opportunities for competition proposed by AFRL for Blue Devil Block 2. ERDC personnel provided little oversight and charged the Air Force $1,137,000 to administer the Blue Devil Block 2 contract for 3 months. ERDC personnel received about $34 million of the $49.6 million in funding before Blue Devil Block 2 was transferred to the 645th AESG in November 2010. ERDC personnel:

Air Force A2's decision to offload the Blue Devil Block 2 contract to ERDC increased costs and deprived the acquisition of the benefit of AFRL personnel's subject matter expertise.

- obligated $31,050,000 to contract W912HZ-10-C-0085,
- obligated $1,800,000 to contracts supporting development, and
- retained $1,137,000 in fee and cost reimbursement to administer WASP.

Acquisition Responsibility Transitioned Back to the Air Force

Blue Devil Block 2 did not remain with ERDC very long after the August 11, 2010, contract award. On September 30, 2010, the Secretary of Defense approved Blue Devil Block 2 for rapid acquisition authority. He designated the Secretary of the Army as the senior official in the Department of Defense responsible for acquiring and

[7] The estimate included a 12-month operational demonstration.

deploying Blue Devil Block 2 as quickly as possible. In October 2010, Air Force A2 personnel requested the Director, SAF/AQI, assist in transitioning Blue Devil Block 2 to an Air Force program office. On November 9, 2010, SAF/AQI verbally assigned responsibility for Blue Devil Block 2 to the 645th AESG. On December 22, 2010, the Director, SAF/AQI, directed the 645th AESG to take the necessary steps to execute Blue Devil Block 2. On January 26, 2011, the Secretary of Defense signed a memorandum officially designating the Secretary of the Air Force as the senior official for Blue Devil Block 2.

Expedited Fielding of a Developmental System in an Unachievable Time Frame

The Director, SAF/AQI, inappropriately directed 645th AESG personnel to expedite the fielding of Blue Devil Block 2 after he disregarded technical assessments from AFRL and initial assessments from 645th AESG personnel that the 12-month delivery time frame was unachievable and that Blue Devil Block 2 was not suited for rapid fielding. AFRL personnel performed a second assessment of the Blue Devil Block 2 acquisition in October 2010 and proposed a 30-month development schedule at a total cost between $231 and $296 million (including 12-month deployment). AFRL personnel expressed concern that Blue Devil Block 2 had poorly defined system and performance requirements. Specifically, AFRL personnel expressed concern about the airship because it was 7.5 times larger in volume, 75 percent longer, and the operating altitude was 4 times greater than the contractor had experienced with its smaller Polar 400 airship.

645th AESG personnel also identified several items that could negatively impact the desired 12-month requirement. 645th AESG personnel estimated Blue Devil Block 2 could be developed and deployed in 16 months. However, 645th AESG personnel's 16-month estimate reflected long lead times for critical components and considered using a different contractor to assume the role of lead integrator. Additionally, the 645th AESG's assessment included a legal review of ERDC contract W912HZ-10-C-0085, which determined the contract was "legally insufficient" and unusable because the initial requirement was not synopsized or competed, although there were indications that commercial sources may have been available and the data rights were not negotiated thoroughly. 645th AESG personnel notified the Director, SAF/AQI, that Blue Devil Block 2 was not suitable for rapid fielding because the system was developmental.

After consulting with JIEDDO, 645th AESG personnel, and personnel from the ISR Task Force, on November 9, 2010, the Director, SAF/AQI, directed 645th AESG to field Blue Devil Block 2. Following the November direction from SAF/AQI, 645th AESG

personnel worked to develop a plan that would meet the 12-month deadline. On November 18, 2012, 645th AESG personnel sent an e-mail to SAF/AQI stating that 12 months was going to be a challenge but it was doable. The 645th AESG personnel also identified areas of concern that needed to be worked through, such as spares and the ground station. 645th AESG contracting personnel awarded the second contract, FA8620-11-C-4024, on March 14, 2011, with a delivery date of January 31, 2012. The Deputy Assistant Secretary for Information Dominance, Office of the Assistant Secretary of the Air Force for Acquisition should heed future technical assessments from acquisition experts regarding unachievable delivery time frames and modify delivery schedules accordingly.

Inappropriate Assignment to the 645th AESG

The Director, SAF/AQI, directed 645th AESG personnel to manage the Blue Devil Block 2 acquisition. However, the assignment was inappropriate for the 645th AESG because Blue Devil Block 2 required developmental work and had a 12-month delivery time frame. Further, ERDC personnel initiated the acquisition by awarding a contract that was high-risk with probable cost growth. A major portion of the Blue Devil Block 2 acquisition was the development, assembly, and fabrication of an unmanned 335-foot airship. 645th AESG personnel do not typically acquire systems as developmental as Blue Devil Block 2; instead, their acquisitions normally include modification of existing equipment to rapidly acquire needed capabilities.

645th AESG personnel generally manage cradle-to-grave initiatives with control over both acquisition and contracting. 645th AESG effectiveness in rapid acquisition and fielding resulted from its use of a trusted supplier network. During the development of Blue Devil Block 2, 645th AESG personnel were unable to use this trusted supplier network to field Blue Devil Block 2 because the 12-month delivery time frame necessitated use of MAV6, the contractor selected by ERDC personnel on contract W912HZ-10-C-0085. 645th AESG personnel informed the Director, SAF/AQI in October 2010, they could not deliver Blue Devil Block 2 in 12 months. The 645th AESG Deputy Program Director stated that SAF/AQI replied, "If not the 645th AESG, then who?" The Deputy Assistant Secretary for Information Dominance, Office of the Assistant Secretary of the Air Force for Acquisition should limit future use of the 645th AESG to programs suitable for quick-reaction contracting.

ERDC personnel wrote an inadequate and ambiguous contract for WASP. 645th AESG personnel assessed contract W912HZ-10-C-0085 and concluded that ERDC personnel initiated Blue Devil Block 2 without consulting acquisition experts, which resulted

in high-risk of cost growth and delayed system completion. 645th AESG personnel had to correct the contract deficiencies and development approach initiated by ERDC. 645th AESG personnel did not transfer the ERDC contract; instead, personnel initiated a new contract, FA8620-11-C-4024, and provided the completed work from the ERDC contract W912HZ-10-C-0085 to the contractor as Government-furnished equipment. 645th AESG personnel developed an acquisition strategy, drafted a statement of work, and transitioned the contractor to a new Air Force contract with contractor accountability mechanisms.

Proper Administration of Second Contract

Following the March 14, 2011, contract award, 645th AESG personnel provided adequate contractor oversight and contract administration. FAR 42.1103, "Production Surveillance and Reporting Policy" requires the contractor be responsible for timely contract performance and the Government to maintain surveillance of contractor performance as necessary to protect its interests. 645th AESG personnel properly oversaw contractor performance and actively monitored the contractor's development of Blue Devil Block 2 throughout the period of performance. 645th AESG personnel provided a forbearance letter to address cost growth and development delays, regularly updated Air Force stakeholders, and issued a cure notice to address schedule delays and the contractor's inability to complete the project. Specifically,

- 645th AESG personnel issued a forbearance letter to MAV6 on July 25, 2011, after Blue Devil Block 2 suffered technical setbacks projected to cause cost growth and schedule delays. 645th AESG personnel also addressed programmatic and technical challenges with the forbearance letter to mitigate risk of program failure. MAV6 was granted 30 days to provide a detailed plan to address estimated costs at completion, a revised completion date, subcontractor management plan, configuration management plan, and quality assurance approach across the life of the program. On October 12, 2011, 645th AESG personnel determined that the contractor's recovery plan was satisfactory to continue work on Blue Devil Block 2.

- 645th AESG personnel regularly provided updates about Blue Devil Block 2 development to the ISR Task Force and the Director, SAF/AQI. Additionally, 645th AESG assigned Government flight representatives to be onsite with the contractor to monitor contractor performance.

- 645th AESG personnel issued a cure notice to MAV6 on March 20, 2012, to address continued schedule delays, poor subcontractor management, persistent weight and engineering challenges, and test failures that raised concerns about the contractor's ability to complete the project within the contractual schedule.

645th AESG personnel assessed deployment costs for Blue Devil Block 2 in November 2011, after concluding that initial Air Force A2 and ERDC estimates were not accurate. 645th AESG personnel received an estimate that the sustainment costs would be over $150 million per year and informed the Chief of Staff of the Air Force and the ISR Task Force in December 2011 that Blue Devil Block 2 was underfunded by $194 million. Further, SAF/AQI personnel stated in an August 2012 meeting that initial cost estimates of logistics support to deploy Blue Devil Block 2 to Afghanistan were low and that true costs were dramatically higher because of inherently high risk when deployed.

Airship Development Stops

On May 23, 2012, after the contractor was unable to successfully attach tail fins to Blue Devil Block 2, 645th AESG personnel directed the contractor to stop work on airship development and directed the contractor to pack and ship the airship. Air Force officials determined that the contractor would not be able to deliver an airworthy airship within the required time frame, which had been extended from October 2011 to June 30, 2012. Furthermore,

- Blue Devil Block 2 costs had increased $26 million, and
- the delivery date had been extended 5 months since 645th AESG personnel awarded the contract in March 2011.

On July 21, 2012, the contractor released nearly $400,000 of helium out of the Blue Devil Block 2 airship, effectively ending development. 645th AESG personnel allowed the contractor to complete closeout activities on contract FA8620-11-C-4024, which ended October 21, 2012. The period of performance for ERDC contract W912HZ-10-C-0085 ended November 27, 2012. In total, DoD spent about $149 million on Blue Devil Block 2 ($115 million on FA8620-11-C-4024 and $34 million on W912HZ-10-C-0085). SAF/AQI personnel noted that many component parts originally procured for the airship had residual value and were absorbed into other programs across the Air Force.

Conclusion

Air Force personnel mismanaged the award of contracts for Blue Devil Block 2. Air Force A2 personnel initiated Blue Devil Block 2 in response to urgent operational needs and intended to use the same methodology that had been successful in fielding Blue Devil Block 1. However, Air Force A2 personnel improperly offloaded the Blue Devil Block 2 contract to ERDC after they could not find a program or contracting office willing to support the delivery date used to secure approval and funding. Air Force A2 personnel's use of contract offloading unnecessarily increased program costs by about $1.1 million for ERDC administrative fees and initiated Blue Devil Block 2 without necessary Air Force technical and contracting expertise.

The Director, SAF/AQI, inappropriately directed 645th AESG personnel to acquire Blue Devil Block 2 despite technical assessments from AFRL and initial assessments from 645th AESG personnel that the 12-month delivery time frame was unachievable and that Blue Devil Block 2 was not suited for rapid fielding. Although the Director, SAF/AQI, was responding to urgent operational requirements, as well as direction from the Secretary of Defense, the Air Force would have been better served to have AFRL personnel manage the acquisition using an event-driven acquisition schedule with a realistic development time frame. If Air Force A2 personnel and the Director, SAF/AQI, had heeded the advice of acquisition experts, the Air Force would not have wasted $149 million on the uncompleted Blue Devil Block 2 system.

Recommendations, Management Comments, and Our Response

Recommendation A.1

We recommend the Chief of Staff of the Air Force assess initiatives started by Air Force Intelligence, Surveillance, and Reconnaissance personnel to determine whether an Air Force program and contracting organization should be designated for quick reaction capability development and fielding of Intelligence, Surveillance, and Reconnaissance initiatives.

Principal Deputy Assistant Secretary of the Air Force for Financial Management and Comptroller Comments

The Principal Deputy Assistant Secretary of the Air Force for Financial Management and Comptroller, responding on behalf of the Chief of Staff of the Air Force, commented intelligence, surveillance, and reconnaissance initiatives are coordinated with the

Assistant Secretary of the Air Force, Director of Information Dominance Programs and other organizations and agencies to advocate, develop and field new technologies in support of urgent warfighter operational needs. The lessons learned from the Blue Devil Block 2 failure will be applied toward improving coordination of future quick reaction capability programs with the proper acquisition office.

Our Response

The Principal Deputy Assistant Secretary of the Air Force for Financial Management and Comptroller comments are not responsive. We request the Principal Deputy Assistant Secretary of the Air Force for Financial Management and Comptroller state in an updated response whether or not she agrees with the recommendation and provide a specific course of action and completion time frame.

Recommendation A.2

We recommend the Director for Information Dominance Programs, Office of the Assistant Secretary of the Air Force for Acquisition:

a. Heed future technical assessments from acquisition experts regarding unachievable deliver time frames and modify delivery schedules accordingly.

Principal Deputy Assistant Secretary of the Air Force for Financial Management and Comptroller Comments

The Principal Deputy Assistant Secretary of the Air Force for Financial Management and Comptroller, responding on behalf of the Director for Information Dominance Programs, Office of the Assistant Secretary of the Air Force for Acquisition, commented future initiatives will be assigned and managed by the appropriate Air Force program office which will ensure the correct technical, cost, and schedule assessments are completed.

Our Response

The Principal Deputy Assistant Secretary of the Air Force for Financial Management and Comptroller comments are considered responsive as the Air Force will ensure future initiatives will be assigned and managed by the appropriate Air Force program office. No further action is required.

b. Use the capabilities of the 645th Aeronautical Systems Group only for systems appropriate for quick-reaction contracting.

Principal Deputy Assistant Secretary of the Air Force for Financial Management and Comptroller Comments

The Principal Deputy Assistant Secretary of the Air Force for Financial Management and Comptroller agreed with the recommendation and commented the 645th Aeronautical Systems Group should only be used for initiatives appropriate for quick reaction contracting.

Our Response

The Principal Deputy Assistant Secretary of the Air Force for Financial Management and Comptroller comments are responsive and no further action is required.

Finding B

Army Engineer Research and Development Center Was Not the Appropriate Place for Developing a Persistent Surveillance Airship

ERDC personnel improperly awarded contract W912HZ-10-C-0085 on August 11, 2010, for the $49.6 million WASP. Specifically, ERDC personnel inappropriately awarded a level of effort research and development contract for a known Air Force and JIEDDO requirement.

This occurred because ERDC personnel misused the broad agency announcement process. Specifically, ERDC personnel:

- did not identify the WASP proposal as a specific system (Blue Devil Block 2) previously proposed to Air Force A2, which would have prevented ERDC personnel from awarding the contract using the broad agency announcement process, and
- completed inadequate assessments of project technical feasibility and cost before awarding the contract.

Additionally, ERDC personnel did not properly administer the WASP contract because ERDC personnel devoted insufficient resources to administer the contract.

As a result, ERDC personnel initiated development of an Air Force system without adequately assessing technical feasibility and cost, which contributed to the failure to fulfill an urgent operational need. Furthermore, ERDC personnel charged about $1.1 million in administration fees that was not commensurate with the amount of work performed.

Improper Use of the Broad Agency Announcement to Acquire a Specific System

ERDC personnel should not have used its broad agency announcement in August 2010 to award the $49.6 million WASP contract. The WASP was not basic or applied research and development but instead was essentially the development of the Blue Devil Block 2 system previously proposed to Air Force A2. FAR 35.016, "Broad Agency Announcement,"

limits use of the broad agency announcement to basic and applied research as well as advancement of the state-of-the-art:

> BAA's [broad agency announcements] may be used by agencies to fulfill their requirements for scientific study and experimentation directed toward advancing the state-of-the-art or increasing knowledge or understanding rather than focusing on **a specific system or hardware solution**. The broad agency announcement technique shall only be used when meaningful proposals with varying technical/scientific approaches can be reasonably anticipated. [emphasis added]

ERDC personnel did not treat the WASP proposal as a specific Air Force system despite numerous references throughout the contractor's proposal to supporting the Air Force Blue Devil Block 2 initiatives. On May 7, 2010, ERDC personnel received a 200-page proposal titled, "Wide Area Surveillance Platform," which included detailed descriptions of an airship attached with ISR equipment deployable to Afghanistan within 12 months. The proposal also stated that the contractor had submitted the proposal to Air Force A2, although WASP was not an Air Force program of record. ERDC personnel focused on the ISR equipment and potential improvements in sensor capabilities but not the effort required to develop and field an airship. ERDC personnel treated the WASP proposal as research and development to advance the state of the art and not the acquisition of a system that included development of a large airship with attached ISR equipment intended to meet urgent Air Force and JIEDDO requirements. The Army Corps of Engineers Principal Assistant Responsible for Contracting–Winchester should provide training to assist ERDC personnel in the identification of specific material solutions and initiatives inappropriate for the Army Engineer Research and Development Center, plus compliant use of the broad agency announcement.

Avoiding Competition Requirements

ERDC contracting personnel's decision to treat the WASP as research and development and not as a specific Air Force system improperly avoided Federal contracting requirements for open competition. ERDC personnel received a single response to their broad agency announcement on open research topic 10 on May 7, 2010, from ARES Systems Group (later MAV6), titled, "Wide Area Surveillance Platform." ARES Systems Group previously submitted essentially the same proposal to Air Force A2 on March 3, 2010, as a system suitable for accelerated fielding to support Blue Devil Block 2, as well as multiple Air Force and Joint Urgent Operational Needs. FAR 6.102, "Use of Competitive Procedures," states:

> Competitive selection of basic and applied research and that part of development not related to the development of a specific system or hardware procurement is a competitive procedure if award results from—
>
> (i) A broad agency announcement that is general in nature identifying areas of research interest, including criteria for selecting proposals, and soliciting the participation of all offerors capable of satisfying the Government's needs; and
>
> (ii) A peer or scientific review.

In accepting the WASP proposal, ERDC personnel accepted an existing proposal for a specific Air Force system in response to an open broad agency announcement research topic. Before ERDC personnel received the WASP proposal, AFRL personnel had assessed Blue Devil Block 2 in April 2010 and performed market research that identified opportunities for competition. Specifically, AFRL personnel considered splitting the procurement by awarding a sole-source contract for the sensors and competing the contract for the airship.

Because WASP was essentially the Air Force Blue Devil Block 2 system, ERDC personnel should have competed the acquisition or prepared a justification for a sole-source award. ERDC personnel awarded what was, in effect, a sole-source contract to MAV6 on August 11, 2010. Further, potentially interested sources would have no means to determine that ERDC's broad agency announcement research topic GSL-10 would be used to award a contract for development and fielding of a complex sensor system that included fabrication of a 335-foot airship. The Army Corps of Engineers Principal Assistant Responsible for Contracting—Winchester should conduct training to ensure ERDC personnel understand and comply with competition mandates.

Contract Technical Feasibility and Cost Assessments Were Inadequate

ERDC personnel completed an insufficient review of the $49.6 million WASP proposal and supported their technical feasibility assessment with a 1-page document. ERDC personnel primarily relied on the contractor's proposal and the ERDC assertions from the principal investigator (who later became the contracting officer's representative for the WASP contract) that the WASP was a research and development effort. ERDC personnel supported their technical feasibility determination with brief responses describing the merits of the WASP proposal and compliance with the

ERDC personnel reviewing the contractor's proposal had no experience in overseeing the development and fabrication of a 335-foot airship.

limitations of the broad agency announcement. ERDC technical personnel had extensive experience in sensor technology research and development and had worked with JIEDDO to satisfy other urgent requirements. However, ERDC personnel reviewing the contractor's proposal had no experience in overseeing the development and fabrication of a 335-foot airship that was supposed to be deployable in 12 months. The Head of the Contracting Activity for the Army Engineer Research and Development Center should establish procedures to verify personnel reviewing proposed efforts have an appropriate level of subject matter expertise.

ERDC personnel conducting the assessment of technical feasibility placed too much reliance on the assertions of the ERDC principal investigator. The ERDC principal investigator was aware of Blue Devil Block 2 and, in April 2010, provided ground-sensor expertise to Air Force A2 personnel, while Blue Devil Block 2 processed through the JCAAMP. The ERDC principal investigator stated the WASP proposal represented what the contractor would like to accomplish during the 12-month period. As discussed in Finding A, Air Force A2 personnel offloaded the Blue Devil Block 2 contract to ERDC after AFRL personnel determined that the 24-month time frame established during the JCAAMP was unachievable. The ERDC principal investigator offered Air Force A2 personnel use of the broad agency announcement research topic GSL-10, which he oversaw.

ERDC personnel conducted an inadequate cost assessment of the WASP. ERDC personnel treated the WASP proposal as a 12-month research and development effort, despite numerous indications in the contractor's proposal that the WASP system was substantially larger than the $49.6 million proposed. If the proposal value submitted to ERDC had exceeded $50 million, the Principal Assistant Responsible for Contracting–Winchester would have been required to perform a peer review before issuing the contract and may have questioned the size and scope of the WASP proposal. ERDC personnel did not consider the total development cost, which AFRL personnel estimated in April 2010 to be greater than $240 million. ERDC personnel's assessment of cost involved little more than verifying the accuracy of amounts in the contractor's proposal. The Head of the Contracting Activity for the Army Engineer Research and Development Center should perform a review of the performance of the contracting officer and chief of contracting, who awarded contract W912HZ-10-C-0085, for failure to protect the Government's interest. As appropriate, initiate accountability actions.

Contract Administration Needed Improvement

ERDC personnel did not assign sufficient resources or complete meaningful oversight plans to administer the $49.6 million contract, of which ERDC personnel obligated about $31 million. ERDC personnel were unable to provide meaningful support for how they planned to administer and oversee the WASP system, which included the development, fabrication, and deployment of a 335-foot airship in 12 months. ERDC contracting personnel assigned a single contracting officer's representative without sufficient airship development experience to provide oversight and stated they were not involved unless the ERDC contracting officer's representative informed them of problems. ERDC personnel stated they participated in numerous in-process reviews, program reviews, and site visits to the contractor's facilities. However, the ERDC contracting officer's representative was unable to provide documentation of oversight planned or conducted. Additionally, for the 3-month period[8] that ERDC personnel administered the WASP contract, the contracting officer's representative was deployed to Afghanistan for 1 month on other projects. The Director, SAF/AQI, assigned Blue Devil Block 2 to the 645th AESG on November 9, 2010, after the Secretary of the Air Force requested that Blue Devil Block 2 transition to an Air Force program office in October 2010. The 645th AESG contracting personnel awarded a new contract to finish procuring Blue Devil Block 2 in March 2011 and provided all items under the ERDC contract award as Government-furnished equipment on the new award.

For little more than a 3-month period that ERDC personnel administered the WASP contract, the contracting officer's representative was deployed to Afghanistan for 1 month on other projects.

ERDC personnel assessed the Air Force administrative charges that were not commensurate with the actual effort undertaken by ERDC personnel to administer the WASP contract. ERDC received $1,137,000 in administrative and service fees for administering the WASP contract. ERDC personnel administered WASP for about 3 months before the initiative was transferred to the Air Force. A single contracting officer's representative was assigned to the WASP. During ERDC personnel's 3-month administration of the WASP contract, the contracting officer's representative was deployed to Afghanistan for 1 month. As discussed in Finding A, when the Air Force 645th AESG was assigned responsibility to acquire Blue Devil Block 2 in

[8] ERDC awarded contract W912HZ-10-C-0085 on August 11, 2010, and SAF/AQI assigned Blue Devil Block 2 to the 645th AESG on November 9, 2010.

November 2010, they did not use the ERDC contract but instead initiated a new contract and provided the work completed on the ERDC contract to the contractor as Government-furnished equipment. After Blue Devil Block 2 was transferred to the Air Force, ERDC provided no additional administration beyond paying contractor invoices. Of the fees received by ERDC for 3 months of support:

- $568,118 were allocated to labor costs and laboratory funding,
- $327,824 were allocated to laboratory and office supplies,
- $185,594 were not accounted for, and
- $55,465 were allocated to travel.

ERDC personnel allocated questionable costs to the WASP contract. Most of the $1,137,000 was not appropriately allocated to contract W912HZ-10-C-0085. As of May 2013, ERDC personnel returned $51,423 to the Air Force but were unable to support how costs were allocated to the WASP contract, despite the limited effort expended. Further, ERDC personnel's inappropriate acceptance of the WASP proposal, inappropriate use of the broad agency announcement, and poor contract administration make the retention of these funds by ERDC questionable. The Principal Assistant Responsible for Contracting–Winchester should return all fees received from the Air Force to award and administer the WASP contract unless an independent review substantiates that the costs were valid expenses.

Implementation of Some Corrective Actions

In May 2012, ERDC personnel implemented improvements to processes and controls related to the broad agency announcement process partially in response to this audit and to an Army Inspector General Peer Review completed in 2012. Specifically, ERDC developed standard operating procedures for awarding broad agency announcement contracts and modified their proposal evaluation form; now they require an independent Government estimate for all contractual actions above the simplified acquisition threshold. ERDC also implemented an ERDC Acquisition Strategy Board to review and provide guidance to the individual acquisition plans and strategies to ensure ERDC uses the appropriate balance of acquisition methods, contract types, and contract sizes.

Conclusion

ERDC personnel improperly used their broad agency announcement to award what was in effect a sole-source contract to develop the Blue Devil Block 2 surveillance system.

ERDC personnel treated the WASP award in the same manner as research and development contracts for significantly less complex studies with lower dollar values. ERDC personnel were focused on the research and development potential for the sensor technology but overlooked the airship portion of the proposal. ERDC personnel concluded that a research and development contract that included the development of an airship that had to be deployed in 12 months was technically feasible despite having no experience in developing airships. ERDC personnel failed to identify total cost because ERDC personnel assessed the WASP proposal as a level-of-effort contract. Further, ERDC personnel provided poor contract oversight and assessed the Air Force administrative charges that were not commensurate with the actual effort undertaken by ERDC personnel. ERDC personnel's efforts directly contributed to the failure to fulfill an urgent operational need.

Recommendations, Management Comments, and Our Response

Recommendation B.1

We recommend the Army Corps of Engineers Principal Assistant Responsible for Contracting–Winchester:

a. Provide training in the identification of specific material solutions and initiatives inappropriate for Army Corps of Engineers Engineer Research and Development Center to field.

Principal Assistant Responsible for Contracting–Winchester Comments

The Principal Assistant Responsible for Contracting–Winchester, commented training was not under the purview of the Regional Principal Assistant Responsible for Contracting but if additional training was determined appropriate, the Directorate of Contracting Workforce Development Division would conduct the training. The Principal Assistant Responsible for Contracting–Winchester, further commented the Army Engineer Research and Development Center would develop and conduct internal training on the subject matter.

Our Response

The Principal Assistant Responsible for Contracting–Winchester's comments are considered responsive. Although they proposed an alternative course of action, the comments met the underlying intent of the recommendation.

b. Conduct a review of Army Corps of Engineers Engineer Research and Development Center broad agency announcement procedures, to include contract competition requirements.

Principal Assistant Responsible for Contracting–Winchester Comments

The Principal Assistant Responsible for Contracting–Winchester, agreed and stated an internal evaluation of the Army Engineer Research and Development Center's broad agency announcement procedures was conducted and training developed on proper procedures and Army Engineer Research and Development Center's efforts to develop and conduct internal training on the subject matter will be an ongoing initiative.

Our Response

The Principal Assistant Responsible for Contracting–Winchester's comments were responsive, and the actions met the intent of the recommendations.

c. Direct the return of fees received from the Air Force to award and administer contract W912HZ-10-C-0085, unless an independent review substantiates questioned costs were valid expenses.

Principal Assistant Responsible for Contracting–Winchester Comments

The Principal Assistant Responsible for Contracting–Winchester commented the Army Engineer Research and Development Center will request a Defense Contract Audit Agency Audit to ensure transparency and tractability. He further stated that based on an Army Engineer Research and Development Center review of contract W912HZ-10-C-0085, about $50,000 had been returned to the Air Force.

Our Response

The Principal Assistant Responsible for Contracting–Winchester's comments are responsive. We accept the course of action proposed, and the comments meet the intent of the recommendation.

Recommendation B.2

We recommend the Head of the Contracting Activity for the Army Corps of Engineers Engineer Research and Development Center:

a. Establish procedures to verify personnel reviewing contractor proposed efforts have an appropriate level of subject-matter expertise.

Director, Army Corps of Engineers, Engineer Research and Development Center Comments

The Director, Army Corps of Engineers, Engineer Research and Development Center, agreed with the recommendation and commented all contracting actions over $1 million are now presented in front of the Army Engineer Research and Development Center Acquisition Strategy Board. In addition, the Army Engineer Research and Development Center developed guidance for the broad agency announcement in June 2012 that explains the process and format of the technical review and required level of approval and subject-matter expertise for all acquisitions.

Our Response

The Director's comments were responsive, and the actions met the intent of the recommendations.

b. Perform a review of the contracting officer and chief of contracting who inappropriately awarded contract W912HZ-10-C-0085, which did not protect the Government's interest. As appropriate, initiate accountability action.

Director, Army Corps of Engineers, Engineer Research and Development Center Comments

The Director, Army Corps of Engineers, Engineer Research and Development Center, agreed and commented Army Engineer Research and Development Center personnel will review personnel, processes, and procedures associated with the subject contract. Based on the findings, Army Engineer Research and Development Center will implement management controls and accountability actions as appropriate.

Our Response

The Director's comments were responsive, and the actions met the intent of the recommendations.

Appendix A

Scope and Methodology

We conducted this performance audit from May 2012 through July 2013 in accordance with generally accepted Government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

This project was a follow-on audit to "Air Force Aeronautical Systems Center Contracts Awarded Without Competition" (Project No. D2012-D000CG-0038.000). Our scope addressed the two primary contracts awarded for the Blue Devil Block 2 surveillance system, consisting of contract W912HZ-10-C-0085, issued at the Army Corps of Engineers Engineer Research and Development Center for $49.6 million and contract FA8620-11-C-4024 issued at the 645th Aeronautical Systems Group (645th AESG) for $86.2 million, to determine whether the Army Corps of Engineers and Air Force personnel properly awarded and administered contracts for the acquisition of the Blue Devil Block 2 surveillance system.

Review of Documentation and Interviews

We evaluated documentation against applicable criteria including:

- Federal Acquisition Regulation (FAR) 6.102, "Use of Competitive Procedures";
- FAR Subpart 6.3, "Other Than Full and Open Competition";
- FAR Subpart 15.6, "Unsolicited Proposals";
- FAR 35.016, "Broad Agency Announcement";
- FAR 42.1103, "Production Surveillance and Reporting Policy";
- FAR 42.13, "Suspension of Work, Stop-Work Orders, and Government Delay of Work"; and
- FAR 52.242-15, "Stop-Work Order."
- Public Law 107-314, "Bob Stump National Defense Authorization Act for Fiscal Year 2003" Section 806; and
- Public Law 108-375, "Ronald W. Reagan National Defense Authorization Act for Fiscal Year 2005" Section 811.

We interviewed key personnel and performed fieldwork at the following organizations:

- Army Corps of Engineers Engineer Research and Development Center (Vicksburg, Mississippi),
- Assistant Secretary of the Air Force for Acquisition (Arlington, Virginia),
- Air Force Intelligence, Surveillance, and Reconnaissance (Arlington, Virginia),
- Air Force Aeronautical Systems Center, 645th AESG Contracting Command (Wright Patterson Air Force Base, Fairborn, Ohio), and
- Air Force Research Laboratory (Wright Patterson Air Force Base, Fairborn, Ohio).

We collected, reviewed, and analyzed documents from October 2008 through May 2013. The documentation related to the award and administration of the Blue Devil Block 2 program. Documents reviewed related to determining the proper award and administration of the Blue Devil Block 2 program and included presentations submitted to obtain approval during the Joint Improvised Explosive Device Defeat Organization Capability Approval and Acquisition Management Process, technical feasibility assessments, contractor proposals, contract documentation, evaluation forms Army Corps of Engineers, Engineer Research and Development Center personnel used to assess the Wide Area Surveillance Platform, price negotiation memorandums, requests to issue undefinitized contract actions, justifications to use other than full and open competition, and briefings provided to stakeholders throughout the time period Blue Devil Block 2 was in active development.

Use of Computer-Processed Data

We did not rely on computer-processed data.

Prior Coverage

During the last 5 years, the Government Accountability Office (GAO) has issued three reports related to the Blue Devil Block 2 Program. Unrestricted GAO reports can be accessed over the Internet at http://www.gao.gov.

GAO

GAO Report No. GAO-13-81, "Future Aerostat and Airship Investment Decisions Drive Oversight and Coordination Needs," October 2012

GAO Report No. GAO-12-385, "Opportunities Exist to Expedite Development and Fielding of Joint Capabilities," April 2012

GAO Report No. GAO-12-280, "DOD Needs Strategic Outcome-Related Goals and Visibility over Its Counter-IED Efforts," February 2012

Appendix B

Chronology of Important Events

November 2009–Air Force Intelligence, Surveillance, and Reconnaissance (Air Force A2) developed Blue Devil Block 2 idea: Air Force A2's concept was an operational demonstration for persistent surveillance by using the sensor configuration from Blue Devil Block 1 attached to an airship.

March 2, 2010–ARES Systems Group, LLC submitted an unsolicited proposal to Air Force A2: ARES Systems Group, LLC (ARES) submitted their Wide Area Surveillance Platform (WASP) proposal to Air Force A2. Air Force did not award a contract from the ARES proposal.

April 5, 2010–Air Force Research Laboratory (AFRL) presented their first assessment of Blue Devil Block 2: AFRL presented an assessment of Blue Devil Block 2, which consisted of completing market research and identifying opportunities for competition. AFRL's assessment estimated the total value of the Blue Devil Block 2 to be greater than $240 million.

April 2010–Army Corps of Engineers Engineer Research and Development Center (ERDC) Principal Investigator provided expertise to Air Force A2: ERDC's Principal Investigator, who later became the contracting officer's representative for ERDC's WASP contract, traveled to Wright Patterson Air Force Base and met with AFRL and Air Force A2 personnel to provide ground sensor expertise.

April 7, 2010–AFRL released Request for Information: AFRL released a Request for Information to gauge interest in the flight demonstration of a medium-altitude, long-endurance airship. Specifically, AFRL stated in the Request for Information that it was a "request for information open to U.S. industry on developing and demonstrating a medium-altitude, long-endurance airship. The airship is intended to carry an Intelligence, Surveillance and Reconnaissance (ISR) payload at medium altitudes for long duration. It is expected that an accelerated demonstration project will prove the airship concept is capable of accomplishing this goal." AFRL received eight responses to the Request for Information, with one of the responses being ARES Systems Group's WASP capability. The Request for Information closed on April 15, 2010.

May 7, 2010–ARES responded to the ERDC broad agency announcement: ARES submitted three parts of their WASP proposal, the Offeror's Representations and

Certifications and Technical Volumes, in response to Geotechnical and Structures Laboratory topic 10 of ERDC's broad agency announcement.

May 15, 2010–Blue Devil Block 2 received Joint Improvised Explosive Device Defeat Organization Capability Approval and Acquisition Management Process (JCAAMP) approval: The Blue Devil Block 2 received JCAAMP approval, which consisted of approval at many levels and final approval by the Deputy Secretary of Defense. The JCAAMP approval authorized the use of Joint Improvised Explosive Device Defeat Organization (JIEDDO) funding for Blue Devil Block 2.

May 18, 2010–ERDC received initial funding for WASP: ERDC received a $3,987,000 Military Interdepartmental Purchase Request from the National Guard Bureau for funding of WASP.

June 18, 2010–ARES submitted final piece of WASP proposal: ARES submitted the Cost/Price Volume, which was the fourth and final part of the WASP proposal to ERDC.

August 11, 2010–ERDC awarded WASP (Blue Devil Block 2) contract: ERDC awarded MAV6 (formerly ARES) the WASP (Blue Devil Block 2) contract, W912HZ-10-C-0085, valued at $49.6 million, to perform all work necessary for research and development efforts to allow for expansion of existing and potential technologies to new environments achieved through their implementation and in accordance with contractor's proposal entitled Wide Area Surveillance Platform (WASP) Capability. The contract stated the contractor's proposal was the statement of work. ERDC personnel obligated $2,550,000 to the WASP contract when it was issued.

September 30, 2010–Secretary of Defense assigned Rapid Acquisition Authority to Blue Devil Block 2: The Secretary of Defense designated the Secretary of the Army as the senior official to ensure the Blue Devil Air Ship initiative is acquired and deployed as quickly as possible to eliminate combat capability deficiencies that have resulted in combat fatalities. The Rapid Acquisition Authority gives the designated official, or his designee, the authority to waive any provision of law, policy, directive or regulation that such official determines, in writing, would unnecessarily impede the rapid acquisition and deployment of the needed equipment.

October 2010–AFRL and 645th Aeronautical Systems Group (AESG) completed assessments of Blue Devil Block 2: The Secretary of the Air Force requested

Blue Devil Block 2 transition to an Air Force program office. The Director for Information Dominance, Office of the Assistant Secretary of the Air Force for Acquisition (Director, SAF/AQI) requested the 645th AESG and AFRL personnel assess the Blue Devil Block 2 initiative initiated by ERDC. AFRL's second assessment of Blue Devil Block 2 determined the completion of Blue Devil Block 2 would take 30 months and cost between $231 million and $296 million. 645th AESG personnel conclude Blue Devil Block 2 development and deployment in 12 months was not feasible but stated 16 months might be possible. 645th AESG personnel notified the Director, SAF/AQI, of their assessment.

October 15, 2010–ERDC received second funding disbursement for WASP: ERDC received a $14 million Military Interdepartmental Purchase Request from the Rapid Equipping Force for funding of WASP.

November 9, 2010–Blue Devil Block 2 "verbally" assigned to the 645th AESG: The Director, SAF/AQI, "verbally" assigned the Blue Devil Block 2 system to the 645th AESG. 645th AESG personnel did not take over the ERDC contract.

November 18, 2010–ERDC received third funding disbursement for WASP: ERDC received a $16 million Military Interdepartmental Purchase Request from the 645th AESG for funding of WASP.

December 22, 2010–Director, SAF/AQI signed formal letter of direction: The Director, SAF/AQI signed the formal letter of direction assigning Blue Devil Block 2 to the 645th AESG.

January 26, 2011 – Rapid Acquisition Authority Re-delegated to the Air Force: After the Blue Devil Block 2 program was transferred to the 645th AESG, the Secretary of Defense re-delegated the Rapid Acquisition Authority to assign the Secretary of the Air Force as the senior official for the Blue Devil Air Ship initiative.

March 14, 2011–645th AESG awarded Blue Devil Block 2 contract: The 645th AESG awarded MAV6 the Blue Devil Block 2 contract, FA8620-11-C-4024, valued at $86.2 million to fabricate, assemble, and integrate a persistent ISR capability consisting of an airship with multi-intelligence sensor payload and a ground station for Command and Control of both airship and sensors. In addition, the 645th AESG provided the completed work from the ERDC contract W912HZ-10-C-0085 to the contractor as Government-furnished equipment. The capability for Blue Devil Block 2 consists of the following components

and subsystems: Airship, Payload Integration Infrastructure, Ground Station, Onboard Data Processing and Management, and Mission Payload.

July 25, 2011–Forbearance letter sent to MAV6: 645th AESG personnel were alerted to "multiple technical setbacks for the Blue Devil Block 2 program, and identified additional technical and programmatic setbacks, that were projected to cause the program to exceed the original baseline for cost and schedule." In the Forbearance letter, the 645th AESG contracting officer requested MAV6 submit a detailed plan to recover the program from the setbacks.

October 12, 2011–Recovery plan evaluation: 645th AESG personnel determined the recovery plan MAV6 submitted in response to the Forbearance Letter was satisfactory.

January 4, 2012–Blue Devil Block 2 program "descope": The 645th AESG contracting officer issued a partial stop-work order that required the contractor to stop all work associated with the integration and testing of mission payloads as called for by the contract for a period of 90 days after receipt of the stop-work order, unless notified by the contracting officer to continue work before the end of the 90-day period.

March 20, 2012–645th AESG issued cure notice: The 645th AESG contracting officer issued a cure notice that stated "Recent issues and events during the past 30 days of contract performance have generated serious concerns on behalf of the Government as to the ability of Mav6, LLC to safely deliver the Blue Devil II Airship within the time constraints and funds currently on contract. Continued schedule delays, poor subcontractor management, persistent weight and engineering challenges, and the trend of recent test failures have raised serious questions about your capability to complete this project within the current contractual schedule which expires 30 Jun 12." The cure notice also stated the Government had no plans to provide additional funding and/or schedule relief.

April 2, 2012–Extension of partial stop-work order: The 645th AESG contracting officer issued an extension to the partial stop-work order that was issued January 4, 2012, to extend the provisions of the previous partial stop-work order.

May 1, 2012–ERDC implemented improved policies and procedures for the broad agency announcement as a result of this audit and an Army Inspector General Peer Review: ERDC's improved policies and procedures for the broad agency announcement added levels of review including: proposals submitted in response to ERDC's broad agency announcement are required to go through a pre-proposal process, which limits

the proposal to 6 pages if an executive summary is present, review by the newly-created ERDC Acquisition Strategy Board for potential awards over $2 million, and Principal Assistant Responsible for Contracting approval, after a local peer review has been completed, before the award for all contract awards off the broad agency announcement over $10 million.

May 23, 2012–Pack and ship: The 645th AESG contracting officer sent MAV6 a letter of direction because it was determined there was no chance of success or flight within the costs and delivery schedule. The letter directed MAV6 "to immediately stop all work associated with the development/delivery of the airship, cease and/or freeze all subcontracts, and place no further orders except to the extent necessary to perform disassembly, packing, and shipping the airship and equipment/hardware, or that which you or the subcontractor wish to retain and continue for your own account." Additionally, all residual efforts and remaining contract funds were re-directed to the disassembly, packing, and shipping of the equipment/hardware.

July 21, 2012–MAV6 deflated the Blue Devil Block 2 airship: MAV6 released nearly $400,000 of helium out of the Blue Devil Block 2 airship, effectively ending development.

November 27, 2012–ERDC WASP contract end: The period of performance for the ERDC WASP contract ended November 27, 2012. ERDC personnel spent a total of $33,987,000 on this contract.

November 30, 2012–645th AESG Blue Devil Block 2 contract end: The period of performance for the 645th AESG Blue Devil Block 2 contract ended November 30, 2012. 645th AESG personnel spent a total of $114,926,285 on this contract.

Appendix C

ERDC Broad Agency Announcement: Geotechnical and Structures Lab Topic 10

J. Geophysical Phenomenology–Multi-Modal Geophysical Phenomenology, Modeling, Data Processing, and Data Management (GSL-10)

The objectives include detecting, classifying, and locating airborne and ground military targets and buried objects using geophysical methods for homeland defense and homeland security applications. Also included are invasive and noninvasive approaches for measuring and quantifying the geophysical/geologic signatures of diverse geo-environments. This can include the development of new and/or improved analytical and numerical models, rapid data-processing techniques, and new subsurface imaging techniques that include active and passive sensor modalities in a variety of rural and urban terrains.

Of particular interest is the broadband propagation of energy including, but not limited to: seismic/acoustic/infrasonic/electromagnetic/thermal/chemical, under variable conditions using a variety of sensing platforms (fixed, mobile, airborne, space). The development of new tactics, techniques, and procedures for the employment of novel sensing methods, as well as the development and/or verification of empirical testing and evaluation techniques is also desirable. Data management and multimode integration techniques and platforms are also of interest.

Management Comments

Assistant Secretary of the Air Force for Financial Management and Comptroller Comments

DEPARTMENT OF THE AIR FORCE
WASHINGTON DC

OFFICE OF THE ASSISTANT SECRETARY

21 AUG 2013

MEMORANDUM FOR DoDIG

FROM: SAF/FM
1130 Air Force Pentagon, 4E978
Washington, DC 20330-1130

SUBJECT: DoDIG Draft Report Air Force and Army Corps of Engineers Improperly Managed the Award of Contracts for the Blue Devil block 2 Persistent Surveillance System (Project number D2012-D000CG-0169.000)

The Department of Defense Inspector General (DoDIG) released a draft report titled "Air Force and Army Corps of Engineers Improperly Managed the Award of Contracts for the Blue Devil 2 Persistent Surveillance System." The report provides the Air Force with two recommendations.

Recommendation A.1: We recommend the Chief of Staff of the Air Force assess initiatives started by Air Force Intelligence, Surveillance, and Reconnaissance (ISR) personnel to determine whether an Air Force program and contracting organization should be designated for quick reaction capability development and fielding of ISR initiatives.

Management Comment A.1: ISR initiatives are coordinated with SAF/AQI and other organizations and agencies, including the Big Safari, System Program Offices (SPOs) at Hanscom AFB and Wright Patterson AFB, and other DoD agencies and organizations for the purposes of advocating, developing and fielding new technology in support of warfighter Urgent Operational Needs. The lessons learned from the Blue Devil 2 QRC failure shall be applied toward improving coordination of future quick reaction capability programs with the proper acquisition office.

Recommendation A.2: We recommend the Director for Information Dominance Programs, Office of the Assistant Secretary of the Air Force for Acquisition:

a. Heed future technical assessments from acquisition experts regarding unachievable delivery time frames and modify delivery schedules accordingly.

b. Use the capabilities of the 645th Aeronautical Systems Group only for systems appropriate for quick reaction contracting.

Assistant Secretary of the Air Force for Financial Management and Comptroller Comments (cont'd)

Management Comments A.2:

a. Future acquisition initiatives will be assigned to and managed by the appropriate AF program office. This will ensure the correct technical, cost, and schedule assessments will be completed.

b. AF concurs with using the 645th Aeronautical Systems Group only for appropriate quick reaction contracting initiatives.

Marilyn M. Thomas
Principal Deputy Assistant Secretary
(Financial Management and Comptroller)

Principal Assistant Responsible for Contracting–Winchester Comments

DEPARTMENT OF THE ARMY
U.S. ARMY CORPS OF ENGINEERS
PARC-WINCESTER
7701 TELEGRAPH ROAD
ALEXANDRIA, VA 22315-3802

REPLY TO
ATTENTION OF

CECT-WIN 8/13/2013

MEMORANDUM FOR Commander, US Army Corps of Engineers, Internal Review [redacted], 441 G Street, NW, Washington, DC 20314-1000

SUBJECT: US Army Engineer Research and Development Center (ERDC) Response to DODIG Draft Audit Report: Air Force and Army Corps of Engineers Improperly Managed the Award of Contracts for the Blue Devil Block II Persistent Surveillance System (Project D2012-D000CG-0169.00

1. Reference email [redacted], DoDIG to [redacted], SUBJECT: DoDIG Draft Audit Report D2012-D000CG-0169.000, dated 15 July 2013.

2. Enclosed is PARC-Winchester's reply to Recommendation B.1 of the subject draft report.

3. PARC-Winchester point of contact for this action is [redacted], [redacted] at [redacted].

Encl

John H. Teetsov
Principal Assistant Responsible
for Contracting - Winchester

Principal Assistant Responsible for Contracting–Winchester Comments (cont'd)

PARC –Winchester's Response to Air Force and Army Corps of Engineers Improperly Managed the Award of Contracts for the Blue Devil Block 2 Persistent Surveillance System

Project No. D2012-D000CG-0169.000

We recommend the Army Corps of Engineers Principal Assistant Responsible for Contracting–Winchester:

Recommendation B.1 a.

Provide training in the identification of specific material solutions and initiatives inappropriate for Army Corps of Engineers, Engineer Research and Development Center to field.

Command Comments: Clarification – Training does not fall under the purview of the Regional PARC. However, if any training is determined to be appropriate, this would be conducted by the Directorate of Contracting Workforce Development Division. Additionally ERDC will develop and conduct internal training on the subject matter.

Recommendation B.1 b.

Conduct a review of Army Corps of Engineers Engineer Research and Development Center broad agency announcement procedures, to include contract competition requirements.

Command Comments: Concur – The USACE Program Evaluation Division conducted a review of ERDC's BAA procedures in detail. Training on proper BAA procedures has been developed and currently under the review process within the ERDC leadership. This training is expected to begin in August 2013 and will an ongoing initiative.

Recommendation B.1 c.

Direct the return of fees received from the Air Force to award and administer contract W912HZ-10-C-0085, unless an independent review substantiates questioned costs were valid expenses.

Command Comments: Clairification- ERDC will request a Defense Contract Audit Agency Audit to ensure transparency and tractability. Additionally, based on a USACE review of the award and administering of contract W912HZ-10-C-0085, about $50K was returned to the Air Force.

Army Corps of Engineers, Engineer Research and Development Center Comments

DEPARTMENT OF THE ARMY
ENGINEER RESEARCH AND DEVELOPMENT CENTER, CORPS OF ENGINEERS
WATERWAYS EXPERIMENT STATION, 3909 HALLS FERRY ROAD
VICKSBURG, MISSISSIPPI 39180-6199

CEERD-ZA

02 AUG 2013

MEMORANDUM FOR Commander, US Army Corps of Engineers, Internal Review [redacted], 441 G Street, NW, Washington, DC 20314-1000

SUBJECT: US Army Engineer Research and Development Center (ERDC) Response to DODIG Draft Audit Report: Air Force and Army Corps of Engineers Improperly Managed the Award of Contracts for the Blue Devil Block II Persistent Surveillance System (Project D2012-D000CG-0169.000)

1. Reference e-mail [redacted], DoDIG to [redacted], SUBJECT: DoDIG Draft Audit Report D2012-D000CG-0169.000, dated 15 July 2013.

2. Enclosed is the ERDC reply to Recommendation B.2 of the subject draft report.

3. ERDC points of contact for this action are [redacted].

JEFFERY P. HOLLAND, PhD, PE
Director

Encl:
1. ERDC reply

Army Corps of Engineers, Engineer Research and Development Center Comments (cont'd)

ERDC Response to DODIG Draft Audit Report:

Air Force and Army Corps of Engineers Improperly Managed the Award of Contracts for the Blue Devil Block 2 Persistent Surveillance System

Project D2012-D000CG-0169.000

Recommendation B.2

We recommend the Head of the Contracting Activity for the Army Corps of Engineers' Engineer Research and Development Center:

a. **Establish procedures to verify personnel reviewing contractor proposed efforts have an appropriate level of subject-matter expertise.**

Command Comments: Concur - All contracting actions over $1M are now presented in front of the ERDC Acquisition Strategy Board in accordance with the EASB Center Regulation dated 20 July 2012. In addition, a Broad Agency Announcement (BAA) Evaluation Guidance, dated 15 Jun 2012, was published. This guidance explains the process and format for the technical review and approval of proposals received in response to a BAA. This Program oversight provides the required level of approval and subject-matter expertise for all acquisitions.

b. **Perform a review of the contracting officer and chief of contracting who inappropriately awarded contract W912HZ-10-C-0085, which did not protect the Government's interest. As appropriate, initiate accountability action.**

Command Comments: Concur - The ERDC will review personnel, processes, and procedures associated with the subject contract. Based on the findings, the ERDC will implement management controls and accountability actions as appropriate.

Encl

Acronyms and Abbreviations

645th AESG	645th Aeronautical Systems Group
Air Force A2	Air Force Intelligence, Surveillance, and Reconnaissance
AFRL	Air Force Research Laboratory
ERDC	Army Corps of Engineers Engineer Research and Development Center
FAR	Federal Acquisition Regulation
GSL	Geotechnical and Structures Laboratory
ISR	Intelligence, Surveillance, and Reconnaissance
JCAAMP	Joint Improvised Explosive Device Defeat Organization Capability Approval and Acquisition Management Process
JIEDDO	Joint Improvised Explosive Device Defeat Organization
SAF/AQ	Assistant Secretary of the Air Force for Acquisition
SAF/AQI	Director for Information Dominance Programs, Office of the Assistant Secretary of the Air Force for Acquisition
WASP	Wide Area Surveillance Platform

Whistleblower Protection
U.S. Department of Defense

The Whistleblower Protection Enhancement Act of 2012 requires the Inspector General to designate a Whistleblower Protection Ombudsman to educate agency employees about prohibitions on retaliation, and rights and remedies against retaliation for protected disclosures. The designated ombudsman is the DoD IG Director for Whistleblowing & Transparency. For more information on your rights and remedies against retaliation, go to the Whistleblower webpage at www.dodig.mil/programs/whistleblower.

For more information about DoD IG reports or activities, please contact us:

Congressional Liaison
Congressional@dodig.mil; 703.604.8324

DoD Hotline
800.424.9098

Media Contact
Public.Affairs@dodig.mil; 703.604.8324

Monthly Update
dodigconnect-request@listserve.com

Reports Mailing List
dodig_report-request@listserve.com

Twitter
twitter.com/DoD_IG

DEPARTMENT OF DEFENSE | INSPECTOR GENERAL

4800 Mark Center Drive
Alexandria, VA 22350-1500
www.dodig.mil
Defense Hotline 1.800.424.9098