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Hon. Carol N. Gorman
Assistant Inspector General for Audit
Dept. of Defense
4800 Mark Center Drive,
Alexandria, Virginia 22350-1500

Subject: Additional Objectives for Audit of DoD Oversight of Cost-Plus-Award-Fee Contracts (Project No. D2022-D000AT-0175.000)

Dear Asst. Inspector Gorman:

Please consider augmenting the objective of the subject audit to determine if DoD contracting officials oversaw the accuracy of contractor *reporting* of performance, not just the performance itself

The current objective of your audit, per your letter dated September 12, 2022, is:

“to determine whether DoD contracting officials *oversaw contractor performance* and justified award fees paid for cost-plus-award-fee contract actions in accordance with Federal and DoD policies.”

Your audit provides an opportunity to determine if contractors’ *reported* performance in Earned Value Management System (EVMS) reports is accurate. Per Federal and DoD policies, reporting of earned value should be based on and consistent with technical performance. The augmented objective should determine whether DoD officials also oversaw the accuracy of the *reported* cost, schedule, and technical *performance* and justified award fees.

I have been requesting that DoD and/or the GAO perform an audit with the recommended objective since 2007. Please read the following letters for background.

Letter to Chair Henry Waxman, Subj: Award Fees and Contract Oversight, June 22, 2007

Letter to Chair Adam Smith, Subject: “We reward...process, not results” and Earned Value Management 3/13/21

Excerpt: You observed that “We reward people for process, not for results. The larger problem is that we also reward contractors for process, not for results, on cost plus award fee (CPAF) contracts that require the use of EVM....However, DoD uses subjective award fee criteria that have nothing to do with excellent cost, schedule, or technical performance or with making real progress towards completing “a freaking product at the end of the day.”

Letter to Chair Adam Smith, Subject: Proposed Chair Markup for NDAA for FY 2023 Regarding Industry/DoD Differences on Award Fee Incentives Guidance, June 4, 2022

Excerpt:

Conduct a study of the incentive or award fees most recently paid on the F-35 Block 4 Software Modernization contract

(2) ELEMENTS.—The study (1) shall include an assessment of the following

(A) the extent to which the Department has established award or incentive fee criteria that are based on the verification, on a timely basis, of the quality and technical maturity of the features and functions of the product being developed and tested and that the Department has defined and documented technical performance objectives such as technical performance measures, progress against requirements, exit criteria of the Minimum Viable Product (MVP), and exit criteria of life-cycle phases.

(B) the extent to which the prime contractor and subcontractors have reported schedule performance in its their contract performance reports for the most current incentive or award fee period that is based on verified, objective measures of technical performance including progress towards meeting the exit criteria of the MVP.

(C) the extent to which the contractors have been paid award or incentive fees, in the most recent period, that is based on verified technical and schedule performance including progress towards meeting the exit criteria of the MVP.

(D) The extent to which reported earned value is linked quantitatively with verified technical and schedule performance, including:

- Technical Performance Measures
- Progress against requirements
- Development maturity
- Exit criteria of MVPs and life-cycle phases
- Significant work packages and work products

Letter to Chair Tammy Duckworth, Acquisition Reforms on DoD Major Acquisitions and Software Development, January 12, 2023

Letter to Hon. Susan Collins, Subject: Unfinished Work Regarding Your WSARA Amendment on Earned Value Management, April 29, 2023

This letter and the cited letters may be downloaded from my website, www.pb-ev.com, at the Acquisition Reform tab.



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CC:

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Heidi Shyu, (USD(R&E))

Andrew Hunter, AF Asst. Sec. for AT&L

Adam Smith, HASC

Tammy Duckworth, SASC
Susan Collins, Defense Appropriations Subcommittee
Anthony Capaccio, Bloomberg News