

DEPARTMENT OF THE AIR FORCE

PRESENTATION TO THE COMMITTEE ON ARMED SERVICES
DEFENSE ACQUISITION REFORM PANEL
UNITED STATES HOUSE OF REPRESENTATIVES

SUBJECT: MANAGING SERVICE CONTRACTS: WHAT WORKS AND
WHAT DOESN'T?

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Chairman Andrews, Congressman Conaway, and distinguished members of the Defense Acquisition Reform Panel, I thank you for this opportunity to discuss the latest efforts in the Air Force oversight and management of service contracts. The Air Force Program Executive Officer for Combat and Mission Support (AFPEO/CM) was established in February 2002 in response to the FY02 National Defense Authorization Act requiring a management structure for procurement of services comparable to the structure for procurement of products and designation of an official to be responsible for management of the procurement of services. The PEO provides a management structure for pre- and post-award efforts greater than or equal to \$100 million. Currently, we track 170 Service programs with a potential value of \$152 billion. The scope of our portfolio is broad and includes everything from base operating support to weapons system sustainment to information and advisory and assistance services efforts.

While our office previously strengthened the processes in the pre-award phase, last year we increased our attention on post award oversight and management.

Specifically, we wanted to know if we are getting what we are paying for and what our contractors had committed to in their proposals, what mechanism we have in place to ensure we are getting what we want, and what we can do to improve our ability to match requirements to contractor expectations and delivery. Additionally, in an unprecedented way, we've engaged senior leadership in Service Acquisition oversight across the Air Force. This higher-level focus has enabled a more strategic decision making process whether it be across a major command or the Air Force enterprise.

As we've become more familiar with our Services requirements across the Air Force, we've noted several truths which drive our contract types and strategies which you are specifically interested in today. First, our Federal Acquisition Regulations give us a continuum of contract types. Not a single contract type is best in all circumstances—the requirement should define the contract type. Second, even then, our stretched workforce needs coaching in how to best apply and manage the various contract types available. Finally, like our major weapon systems, Services Acquisition success depends on the active involvement of those whose mission is being enhanced by contracted service providers.

In the following examples I will show you how applying these lessons learned to three of our service programs have resulted in better contracts, improved contractor performance and provided a better value to the taxpayer.

The first example is the Intelligence, Information, Command and Control, Equipment and Enhancement (ICE2) contract valued at \$3.1 billion which provides worldwide sustainment and technical support for intelligence and command & control national security systems. In 1973, the Air Force assumed the role of Single Service Logistics Manager for supporting 40 data processing stations. Today, that customer base includes the Defense Intelligence Agency (DIA), Army, Navy, Marines, Air Force and others at over 500 locations in 150 countries. During a post-award review for this single award, indefinite delivery, indefinite quantity (ID/IQ) effort, we discovered several things: the demands of the post-911 environment had exhausted the available ceiling on this time and material contract much faster than anticipated; staffing for adequate oversight of this huge contract never caught up with the demand; and while only 20% of

the total effort the Air Force had absorbed the full cost of awarding, managing, and administering the ICE2 contract. To address these issues, the Air Force made arrangements for the Defense Intelligence Agency to assume the Single Service Logistics Manager and contracting responsibilities for the ICE2 follow-on effort and garnered funding from DIA for three personnel positions to improve program oversight and management during the two year transition. Most significantly, because we were bumping up on our contract ceiling before a fair competition could be established for DIA's follow-on effort, we worked with the ICE2 prime contractor to get sufficient cost insight for a final two years of labor rates. The result was a 25% reduction in fixed labor rates producing a \$145 million increase in buying power in the final two years of the Air Force contract.

My next example of improving contract strategies by studying the post-award environment, is the \$10.1 billion multiple award ID/IQ Contract Field Teams (CFT) contract. Established in 1951, the current CFT program provides worldwide weapon system maintenance augmentation services to all branches of the Department of Defense and other Federal agencies. The predecessor program had four contractors and six contracting people overseeing this 100% time and material effort. Today, the CFT program offers eleven contractors and has a multifunctional oversight team of 28 establishing better business arrangements and providing more robust oversight and administration. Since the October 2008 award of the new CFT contracts, nearly one-fourth (23.3%) of dollars awarded are Firm Fixed Price. With eleven prime contractors, task order competition has increased markedly and resulted in over 65% of the tasks being awarded to other than incumbents while realizing savings of over \$100 million in

this fiscal year 2009 alone! Additionally, four of the eleven prime contracts were awarded to small businesses with tasks worth \$48 million to date in FY09. In less than one year, the CFT Program Office, with the Defense Contract Management Agency's help, has successfully assisted a large CFT population at over 280 sites worldwide in the shift from a 57 year old way of doing business to a new performance based environment characterized by more clearly defined requirements, optimal business arrangements, increased utilization of small business capabilities, and more robust oversight and contract administration. One of the new tools enabling these improvements is a web-based, online program providing consistent basic training and tracking of field oversight quality assurance and on-site project officer personnel. Importantly, the CFT's Program Office's leadership facilitates this fundamental change in government oversight by linking CFT leadership's performance evaluations to their efforts to standardize processes and procedures reducing variation and waste in those processes.

The last example of Air Force services management and how we have modified our approach to align with circumstances is on the Air Force Contract Augmentation Program (AFCAP) III. This program provides ready response to contingencies throughout the world for a diverse set of government activities—everything from base infrastructure for our deployed airman in Iraq to mattresses for Georgian refugees in support of USAID. While AFCAPs I and II (1997-2005) were originally awarded as a single source, cost reimbursable award fee contracts, AFCAP III now offers a multiple award ID/IQ program with five contractors and a broad range of contract types to best serve its diverse requirements. This flexibility is bounded by a centralized ordering

process that vets the strategy and need against the spectrum of available contract types. While last year saw a mix of contract types, in fiscal year 2009 the majority of orders have resulted in fixed price tasks, and over 93% of these tasks were completed.

We believe one of AFCAP's strengths is its three-pronged post-award management process which helps us calibrate and improve subsequent task competitions. The first prong is the use of quality assurance evaluators (QAEs) who are assigned and trained, prior to task order award, to oversee the tasks execution. The QAEs provide "on-scene" technical expertise coupled with general knowledge of overseeing contracts and specifics on the contract execution. The second prong of the post-award program when large contingency operations are involved is a small staff of forward deployed program managers to facilitate oversight in the area of responsibility. These program managers' communications between the State-side contracting officer, the in-Theater contracting officer, QAEs, and the requiring activity ensure the task reflects the requirement and that the contractor is delivering as promised. The final prong in AFCAP's post-award arsenal is its dedicated contracting officers. While DCMA has some administrative duties, the Air Force procuring contracting officer retains active post award involvement to ensure consistency and continuity as unique situations arise during contract performance. This team approach facilitates evaluation of contractors' performance on each task which serves as a key evaluation criteria for future task orders.

In summary, rather than defining a preferred contract type for services contracts, the Air Force is beginning to move away from viewing Services acquisition as merely "contracts", but rather as multi-functional "programs". By better preparing and engaging our functional experts in defining service requirements and acquisition strategies, in

source selections, and in post-award oversight, we find we are improving competition, getting better prices, increasing attention on small business participation and actually linking our large dollar service programs to Air Force strategic roadmaps and vision. Since this mindset is just a year and half fresh, much of our success is anecdotal at this point, but when I have a sitting Wing Commander say “tell me more” I know we’re heading in the right direction as PEO/CM helps our Air Force recapture acquisition excellence in contracted services.