March 10, 2004

# Acquisition

## Air Force Satellite Control Network Contract

(D-2004-056)

Department of Defense
Office of the Inspector General

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# Report Documentation Page

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**Program managers and contracting officers who oversee, manage, and provide advice on the award and administration of contracts should read this report because it discusses allegations submitted to the DoD Hotline concerning questionable contracting practices during the award and administration of the contract for the Satellite Control Network.**

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**Acronyms**

| | |
|---|---|
| DCAA | Defense Contract Audit Agency |
| DFARS | Defense Federal Acquisition Regulation Supplement |
| EVMS | Earned Value Management System |
| SCN | Satellite Control Network |
| SMC | Space and Missile Systems Center |

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

March 10, 2004

MEMORANDUM FOR ASSISTANT SECRETARY OF THE AIR FORCE
(FINANCIAL MANAGEMENT AND COMPTROLLER)

SUBJECT: Report on Air Force Satellite Control Network Contract
(Report No. D-2004-056)

We are providing this report for review and comment. We performed this audit in response to allegations to the Defense Hotline. We considered comments from the Under Secretary of the Air Force and the Commander, Air Force Space and Missile Systems Center on a draft of this report when preparing the final report.

DoD Directive 7650.3 requires that all recommendations be resolved promptly. The Under Secretary of the Air Force and the Commander, Air Force Space and Missile Systems Center comments were partially responsive. We request additional comments on the planned completion dates for Recommendations B.1. and B.3. by April 9, 2004.

If possible, please send management comments in electronic format (Adobe Acrobat file only) to Audam@dodig.osd.mil. Copies of the management comments must contain the actual signature of the authorizing official. We cannot accept the / Signed / symbol in place of the actual signature. If you arrange to send classified comments electronically, they must be sent over the SECRET Internet Protocol Router Network (SIPRNET).

We appreciate the courtesies extended to the staff. Questions should be directed to Mr. Bruce Burton at (703) 604-9071 (DSN 661-9071) or Mr. Roger Florence at (703) 604-9067 (DSN 664-9067). The team members are listed inside the back cover.

By direction of the Deputy Inspector General for Auditing:

Mary L. Ugone
Director
Acquisition Management Directorate

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

**Report No. D-2004-056** **March 10, 2004**
Project No. (D2003AB-0148)

# Air Force Satellite Control Network Contract

## Executive Summary

**Who Should Read This Report and Why?** Program managers and contracting officers who oversee, manage, and provide advice on the award and administration of contracts should read this report because it discusses allegations submitted to the DoD Hotline concerning questionable contracting practices during the award and administration of the contract for the Satellite Control Network.

**Background.** We performed this audit in response to five allegations made to the Defense Hotline concerning questionable contracting practices during the award and administration of the Satellite Control Network contract. The Satellite Control Network is a worldwide network that is owned, operated, and maintained by the Air Force Space Command to support Space Operations. The Satellite Control Network provides an earth-to-space connection to control military satellites and support launch and early orbit operations of all major U.S. satellite launches. The Satellite Control Network supports more than 100 communication, navigation, surveillance, and weather satellites. The Satellite Control Network tracks satellites, receives and processes data, and sends commands to the satellites.

The Space and Missile Systems Center, a subordinate unit of the Air Force Space Command, awarded Honeywell Technology Solutions, Inc. (Honeywell) a cost-plus-award-fee contract on December 21, 2001, to replace outdated communication systems in the Satellite Control Network with improved components and antenna systems as well as provide hardware and software repair and maintenance. The contract performance period is 6 years plus three 3-year options, with an estimated value of $1.22 billion.

The allegations to the Defense Hotline stated that:

- The program is in jeopardy and will cost the taxpayer $1.7 billion over the next 15 years due to cost over runs, which have occurred and will continue to occur as a result of Honeywell's intentionally underestimating costs in its initial cost proposal.

- Honeywell incorrectly stated it had an earned value management system in place at the time of contract award and subsequently billed the contract for implementing the required system certification.

- Honeywell inappropriately charged the contract for Six Sigma, a quality control program.

- Honeywell improperly charged the contract for the purchase of new computers.

- The Air Force increased program costs and decreased contract administration efficiency by splitting the program into development and sustainment elements.

**Results.** We substantiated that the modernization program for the Air Force satellite tracking station was experiencing cost over runs. We identified cost over runs estimated at $59.8 million through FY 2009 and schedule delays of 24 months on the Satellite Control Network contract. The Air Force should conduct a program review to determine the effect of the cost over runs on program cost, schedule and performance and whether the program goals will be accomplished in a cost-effective manner. (See finding A for information on the detailed recommendations.)

We substantiated that Honeywell stated it had an earned value management system in place at time of contract award when it did not, and we also determined that the Air Force erroneously reimbursed Honeywell for costs for building the earned value management system. The Air Force Space and Missile Systems Center should use appropriate remedies provided by the Federal Acquisition Regulation to correct the misstatement made by Honeywell and obtain equitable reimbursement for the overpayment of Earned Value Management System costs. These remedies should include obtaining the services of the Defense Contract Audit Agency to audit the costs associated with building the earned value management system and to obtain reimbursement for the unallowable costs. Also, the next award fee determination for this contract should reflect Honeywell's inability to meet contract requirements for having a compliant earned value management system. Further, the Air Force Space and Missile Systems Center should initiate appropriate civil or criminal proceedings, or both, against Honeywell for violating false claim and false statement statutes. (See finding B for information on the detailed recommendations.)

We did not substantiate allegations that the contract over runs resulted from Honeywell's intentionally underestimating costs in its proposal or that the contract would cost $1.7 billion over 15 years. Additionally, we did not substantiate allegations pertaining to a Six Sigma quality control program, computer procurements, or splitting the program office. (See Appendix B for detailed information on the allegations.)

**Management Comments and Audit Response.** The Deputy for Military Space, Office of the Under Secretary of the Air Force and the Commander, Air Force Space and Missile Systems Center concurred with the findings and recommendations stating that the Under Secretary of the Air Force reviews the Satellite Control Network program monthly. Also, the Commander, Air Force Space and Missile Systems Center stated that the Program Executive Officer took immediate action after the full extent of the satellite tracking station modernization project's cost growth became apparent. In addition, the Commander, Air Force Space and Missile Systems Center stated that the Air Force had taken action to reflect Honeywell's inability to meet contract requirements for having a compliant earned value management system during the first and second award fee assessments, and its inability to provide a compliant system will continue to be an identified focus item.

Management comments met the intent of the recommendations. However, we request the Commander, Air Force Space and Missile Systems Center provide additional comments that identify completion dates for planned actions. See the Finding section of the report for a discussion of management comments and the Management Comments section of the report for the complete text of the comments.

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## Background

We performed this audit in response to allegations submitted to the Defense Hotline concerning questionable contracting practices during the award and administration of the Satellite Control Network (SCN) contract. The complaint contained five allegations. See the Findings section of the report and Appendix B for a more complete summary of the allegations, audit results, and recommendations.

**The Satellite Control Network.** The SCN is a worldwide network owned, operated, and maintained by the Air Force Space Command. The mission of the network is to provide an earth-to-space connection to control military satellites and support launch and early orbit operations for all major U.S. launches. The SCN consists of control centers, remote tracking stations, and communications links that provide telemetry and tracking to DoD, allied, and civilian systems. The SCN supports more than 100 surveillance, communications, navigation, and weather satellites. Customers include, but are not limited to, the Air Force Space Command, other DoD programs, international programs, and other Government programs.

**The Satellite Control Network Contract.** The Air Force Space and Missile Systems Center (SMC), a subordinate unit of the Air Force Space Command, awarded a cost-plus-award-fee-contract[1] to Honeywell Technology Solutions, Inc., (Honeywell) on December 21, 2001, to provide sustainment and development to the SCN. The sustainment portion of the SCN contract requires Honeywell to provide hardware and software repair and maintenance. The development portion of the SCN contract requires Honeywell to develop remote tracking station block change (tracking station modernization) that will replace outdated satellite tracking stations with improved electronic components and antenna systems. The contract performance period is 6 years plus three 3-year options for a potential contract length of 15 years. The estimated value of the contract, if all options are exercised, is $1.22 billion.

## Objectives

The overall audit objective was to determine whether allegations concerning questionable contracting practices during the award and administration of the SCN contract had merit. See Appendix A for a discussion of the audit scope and methodology and prior audit coverage related to the audit objective.

[1] The cost-plus-award-fee contract is an arrangement where costs are reimbursed in accordance with regulatory cost principles and contract terms. The contract provides for a base fee and for an additional fee amount that may be awarded, in whole or in part, on the basis of periodic evaluations of ongoing contractor performance.

# A. Cost and Schedule for the Satellite Control Network Contract

The modernization program for the Air Force satellite tracking station incurred substantial cost over runs of $26.3 million (34 percent), will potentially incur additional cost over runs of $33.5 million, and delayed the completion of the scheduled modernization by 2 years. These conditions occurred because of unplanned indirect costs and also because the Space and Missile Systems Center awarded a contract for modernizing the satellite tracking stations before identifying technical omissions in the contractor's proposal. As a result, the Air Force will continue to maintain an outdated, 50 year-old technology as well as expend monies for modernization while it renegotiates the contract.

## Allegation

The allegation stated that the SCN program is in jeopardy and will cost the taxpayer $1.7 billion over the next 15 years because of cost over runs. Allegedly, the cost over runs resulted from Honeywell's intentionally underestimating costs in its cost proposal. Additionally, the allegation stated that the Defense Contract Audit Agency (DCAA) identified an actual $4 million cost over run in FY 2002 and a projected $7 million cost over run for FY 2003.

## Contract Over Runs

We substantiated the allegation that the SCN contract for modernizing its satellite tracking stations is at risk because of cost over runs, including cost over runs identified by DCAA for FYs 2002 and 2003. However, we did not substantiate that the total program costs will increase by almost $500 million, from $1.22 billion to $1.7 billion. Also, we did not substantiate that Honeywell intentionally underestimated costs in its cost proposal.

**Unplanned Indirect Costs.** DCAA conducted a partial review of Honeywell's allocable costs and identified an actual over run of $4 million for FY 2002 and a projected cost over run of $7 million for FY 2003. The cost over runs occurred because of unplanned indirect costs, including the lease of a new office building and increased administrative staffing. Those cost over runs pertained to both the sustainment and the development tasks of the contract.

**Tracking Station Modernization Costs.** In addition to the cost over runs identified by DCAA, SMC officials stated that the tracking station modernization portion of the SCN contract has the potential to over run contract cost estimates by approximately $59.8 million ($26.3 million for FYs 2002 and 2003 and an additional $33.5 million through FY 2009).

**Technical Omissions and Underestimated Costs.** After awarding the SCN contract, SMC program officials identified specific areas in Honeywell's plan for

the satellite tracking station modernization that were not considered technically sufficient. According to SMC officials, the technical changes included preparing detailed technical manuals, conducting antenna bore-sight tests, and stress testing the concrete antenna site pad. SMC changes to the plan led to increased work effort by Honeywell. Other portions of cost over runs resulted from the unplanned indirect costs that were reported by DCAA. We did not substantiate the allegation that Honeywell intentionally underestimated costs in its cost proposal.

**Schedule Delays.** SMC issued two stop work orders on the contract and deferred other work to make additional funds available to improve performance on troubled tasks. The stop work orders provided an additional $6.6 million to complete those tasks. However, the deferred work added delays to the contract, which SMC officials estimate is 2 years behind schedule.

**Controlling Contract Costs.** The SMC program officials became aware of the tracking station modernization cost over runs shortly after contract award and responded with increased contractor oversight and detailed briefings to the Program Executive Office on a quarterly basis. Additionally, SMC and Honeywell officials planned to renegotiate the statement of work and implementation plan for development and sustainment efforts by the end of September 2003. Subsequently, SMC officials revised the target for renegotiating the statement of work and implementation plan to January 2004 and April 2004, respectively. As a result of the renegotiation, SMC officials expect the revised baseline to provide accurate details that will enable them to more closely monitor the contract performance and control further cost growth. Because of the potential for additional over runs occurring on the contract, we believe that the Under Secretary of the Air Force should conduct a program review to determine the effect of cost over runs on the program cost, schedule and performance and whether the program goals will be accomplished in an effective and efficient manner.

**Total Contract Cost.** The SMC awarded the SCN contract to Honeywell in December 2001 with a negotiated potential cost of $1.22 billion. We found no basis for the $1.7 billion mentioned in the allegation. Current over run data available supported a contract increase of approximately $60 million, not $500 million.

## Recommendation and Management Comments

**A. We recommend that the Under Secretary of the Air Force review the satellite tracking station modernization program to determine the effect of cost over runs on the program cost, schedule and performance and whether the program goals will be accomplished in an effective and efficient manner**.

**Management Comments.** The Deputy for Military Space, Office of the Under Secretary of the Air Force and the Commander, Air Force Space and Missile Systems Center concurred and stated that the Under Secretary of the Air Force reviews the program monthly. The Under Secretary also stated that the Program Executive Officer took action during the spring of 2003 to initiate project reviews with Honeywell, after the full extent of the satellite tracking station modernization

project's cost growth became apparent. The Under Secretary also stated that the project was restructured during the summer of 2003 and is currently being implemented. The program restructure will be addressed in the FY 2006 budget deliberations. In addition, Honeywell and the Program Executive Officer continue to hold a quarterly forum examining cost, schedule, and performance aspects of the project.

# B. Earned Value Management System

Honeywell did not satisfy the Satellite Control Network contractual requirement to provide a DoD-compliant Earned Value Management System (EVMS) and improperly obtained reimbursement for correcting the system deficiencies. This condition occurred because Honeywell stated in its contract proposal that it had EVMS capabilities when it did not, and the Air Force did not conduct an evaluation of the proposed EVMS before contract award. Without the required EVMS, the Air Force and the contract administrator did not have the information needed to effectively monitor Honeywell's technical, cost, and schedule performance on the satellite modernization contract, and Honeywell may be in violation of the false statement and false claim statutes of the United States Code.

## Allegation

The allegation stated that Honeywell claimed it had an EVMS in place at the time of contract award and incorrectly billed the Air Force $300,000 to construct an EVMS.

## Earned Value Management System

We substantiated the allegation that Honeywell, in its proposal for the SCN contract, stated that it had an established EVMS that would be used during contract performance and that the EVMS complied with DoD Instruction 5000.2-R, when it did not. Further, we substantiated that Honeywell charged for the development of the required EVMS. Those costs were improper. Other costs for EVMS certification were allowable.

**EVMS Defined.** The EVMS is a tool that allows both Government and contractor managers to oversee the technical, cost, and schedule progress on their contracts. An EVMS provides Government managers with data that link time-phased budgets to specific contract tasks, indicate work progress, and show cost, schedule, and technical accomplishments. An EVMS helps managers identify problems and take action in a timely manner to mitigate cost and schedule deviations.

**EVMS Requirement.** SMC issued Request for Proposal F04701-00-R-0006 on November 3, 2000, that included Defense Federal Acquisition Regulation Supplement (DFARS) clause 252.234-7001, which established an EVMS requirement for the SCN contract.

DFARS subpart 252.234-7001, "Earned Value Management System," requires the contractor to use an EVMS that has been recognized by the administrative contracting officer as complying with the criteria provided in DoD

Instruction 5000.2-R,[2] "Earned Value Management Systems Criteria Mandatory Procedures and Reporting." If at the time of award the contractor's EVMS has not been recognized by the administrative contracting officer as complying with the EVMS criteria, the contractor shall be prepared to demonstrate that the EVMS complies with those criteria.

Honeywell submitted a final proposal on November 5, 2001, which stated that it had an adequate EVMS that would be used during contract performance and that complied with DoD 5000.2-R.

**Compliance with EVMS Contract Requirement.** Honeywell did not have a compliant EVMS and used an alternative cost and scheduling system that did not meet the contract requirements established by DFARS 252.234-7001 to provide periodic cost and schedule reports required by the contract. DoD Instruction 5000.2-R identifies 32 criteria needed for a system to be compliant. A Honeywell subcontractor reviewed the Honeywell EVMS from March through April 2002 and determined that the EVMS did not meet any of the 32 criteria. Honeywell was not prepared to undergo certification review until September 2003, 21 months after contract award. The Defense Contract Management Agency, which is the DoD executive agent for EVMS, conducted the certification review of the Honeywell EVMS in September 2003. Honeywell did not pass the review and is correcting its EVMS deficiencies.

**Contract Proposal Evaluation.** The Earned Value Management Implementation Guide, dated October 3, 1997, provides general guidance for pre-contract award activities associated with earned value management. The Earned Value Management Implementation Guide states that evaluation of the proposed EVMS is normally undertaken as part of the proposal evaluation process. The Earned Value Management Implementation Guide also states that care shall be exercised during the entire review process to ensure that the offeror and the Government have the same understanding of the EVMS described in the proposal. The SMC source selection officials did not evaluate Honeywell's EVMS during the proposal evaluation process because the officials' satisfaction with Honeywell's existing accounting and estimating systems led them to assume that the proposed EVMS would also be adequate.

**Reimbursement of EVMS Costs.** Honeywell identified EVMS costs of $921,000 for FYs 2002 and 2003. According to Honeywell, $506,000 were direct costs charged to the SCN contract for training, integrated baseline review preparation, compliance review preparation, and work breakdown structure development. Defense Contract Management Agency officials stated that those were typical charges for administering an EVMS program and preparing for the certification required by the Government. The remaining $415,000 EVMS costs were indirect charges to a corporate overhead pool. These costs included expenses to develop training courses, train executive personnel, and efforts to build an adequate EVMS that complied with DoD Regulation 5000.2-R. Costs

[2]The DoD Instruction 5000.2-R was rescinded after the award of the Satellite Control Network Contract. However, the contract states that if compliance documents are modified or rescinded after date of contract award, the version listed in the contract will still be contractually binding.

for constructing an adequate EVMS should not have been charged to the SCN contract and should be recovered from the contractor.

SMC officials and the DCMA administrative contracting officer had ongoing discussions with Honeywell officials regarding its lack of a reliable EVMS. The administrative contracting officer sought assistance in determining the allowability of Honeywell billings for EVMS, but was mistakenly advised about the appropriateness of some costs.

SMC should request DCAA to review all EVMS charges, direct and indirect, to determine which of the costs are allowable and allocable. SMC should initiate administrative action pursuant to the Federal Acquisition Regulation to include an equitable adjustment for all unallowable and unallocable charges on the Honeywell EVMS. Also, SMC should reflect Honeywell's inability to provide an adequate EVMS in the next award fee computation.

**Compliance With United States Code.** Section 1001, title 18, United States Code (18 U.S.C. 1001) makes it unlawful to knowingly make a false, fictitious, or fraudulent statement or representation on any matter within the jurisdiction of the executive, legislative, or judicial branch of the Government of the United States.

31 U.S.C. 3729 provides liability for any person who knowingly presents, or causes to be presented, to an officer or employee of the United States Government or a member of the Armed Forces of the United States a false or fraudulent claim for payment or approval.

Neither SMC officials nor the administrative contracting officer formally addressed whether or not Honeywell had made a false statement by asserting that it had a compliant EVMS or that Honeywell had submitted a false claim. SMC should use available regulatory and statutory remedies to hold Honeywell accountable for its false assertion of a complaint EVMS, and subsequent claims based on that assertion, in apparent violation of 18 U.S.C. 1001 and 31 U.S.C. 3729.

## Recommendations, Management Comments and Audit Response

**B. We recommend that the Commander, Air Force Space and Missile Systems Center:**

**1. Request the Defense Contract Audit Agency to conduct an audit of the costs associated with Honeywell's Earned Value Management System and advise the Air Force of the allowable and unallowable costs.**

**Management Comments.** The Commander, Air Force Space and Missile Systems Center concurred.

**Audit Response.** Although the Air Force concurred, we request additional management comments on the final report that identify planned completion dates for Recommendation B.1.

**2. Initiate administrative action pursuant to the Federal Acquisition Regulation to include:**

**a. Obtaining reimbursement from Honeywell for the unallowable or unallocable costs identified by the Defense Contract Audit Agency for the Earned Value Management System.**

**b. Reflecting Honeywell's inability to satisfy the requirement for an Earned Value Management System in the Air Force's next award fee computation.**

**SMC Comments.** The Commander, Air Force Space and Missile Systems Center concurred with Recommendation B.2.a. The Commander stated that Recommendation B.2.b. had been initially accomplished during the SCN Contract's first and second award fee period assessments and Honeywell's inability to provide a compliant system will continue to be an identified focus item.

**3. Review the circumstances of Honeywell's assertion concerning the Earned Value Management System and initiate appropriate actions (that is, administrative, civil, criminal) against Honeywell for apparent violation of false claim and false statement statutes.**

**SMC Comments.** The Commander concurred with recommendation B.3. and stated that the review of Honeywell's assertion concerning the EVMS would receive immediate attention.

**Audit Response.** Although the Air Force concurred, we request additional management comments to the final report that identify planned completion dates for Recommendation B.3.

# Appendix A. Scope and Methodology

We performed audit work to examine allegations made to the Defense Hotline concerning the SCN contract. We discussed the allegations with the officials at SMC, Defense Contract Management Agency, DCAA, and Honeywell.

We performed this audit from June 2003 through December 2003 in accordance with generally accepted government auditing standards. The audit scope was limited to the allegations concerning questionable contracting and administration practices. Additionally, we did not review the technical omissions associated with the remote change block development effort and relied on examples provided by SMC officials. We also reviewed the allegations regarding the billing of Six Sigma, computer procurements, and cost increases due to splitting the SCN into two program elements. See the Findings section of the report and Appendix B for a more complete summary of the allegations and audit results. We did not review the management control program.

We identified, analyzed, and documented applicable laws and regulations for Earned Value Management Systems. We reviewed the Request for Proposal for the Satellite Control Network Contract and the Satellite Control Network Contract. We examined documents dated from October 1997 through October 2003 related to the allegations.

**Use of Computer-Processed Data.** We did not use computer-processed data to perform this audit.

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

## Prior Coverage

No prior coverage has been identified for the Air Force Satellite Control Network Contract from the General Accounting Office, the Office of the Inspector General for the Department of Defense, or the Air Force Audit Agency during the last 5 years.

# Appendix B. Summary of Allegations and Audit Results

Of the five allegations concerning questionable contracting practices for the SCN contract, we substantiated or partially substantiated two allegations but did not substantiate the other three allegations.

**Allegation 1.** The SCN program is in jeopardy and will cost the taxpayer $1.7 billion over the next 15 years due to cost over runs. The DCAA identified an actual $4 million cost over run in FY 2002 and a projected $7 million cost over run for FY 2003. This was allegedly as a result of Honeywell's intentionally underestimating costs in its initial cost proposal.

**Partially Substantiated.** We substantiated the allegation that the SCN contract for modernizing satellite tracking stations is at risk because of contract over runs, including cost over runs identified by DCAA for FYs 2002 and 2003. However, we did not substantiate that the total program costs had increased by almost $500 million, from $1.22 billion to $1.7 billion. Also, we did not substantiate that Honeywell intentionally underestimated costs in its cost proposal. In addition, we identified additional cost over runs for tracking station modernization estimated at $59.8 million through FY 2009 and schedule delays of 24 months. (See finding A for details on the allegations and audit results.)

**Allegation 2.** Honeywell stated it had an EVMS in place at the time of contract award that it did not have and subsequently billed the Air Force $300,000 to obtain EVMS certification.

**Substantiated.** We substantiated the allegation that Honeywell's proposal for the SCN contract asserted that an established EVMS would be used during contract performance that it did not have, and that Honeywell incorrectly stated the EVMS complied with DoD Instruction 5000.2-R. We substantiated that Honeywell charged costs for the development of the EVMS. These costs were improper. Other costs charged for EVMS certification were allowable. (See finding B for details on the allegations and audit results.)

**Allegation 3.** The allegation stated that the contractor has billed and plans to continue billing expenses related to a Six Sigma Program, which is internal to Honeywell and of little value to the SCN program.

**Unsubstantiated.** Although Honeywell was indirectly charging the SCN contract for Six Sigma, we did not substantiate the allegation that Six Sigma was of little value to the SCN program. Six Sigma is a quality control program used to improve processes such as repair and production, which is being instituted corporatewide at Honeywell.

DCAA officials stated that they reviewed the charges for Six Sigma and determined that costs were appropriately allocated to corporate indirect cost pools. The DCAA determined that the current disclosure statement allows Honeywell to

charge Six Sigma costs indirectly when the process improvement will benefit the company in its entirety.

**Allegation 4.** The allegation stated that Honeywell improperly charged the Government for the purchase of new computers on the SCN contract.

**Unsubstantiated.** We did not substantiate the allegation that Honeywell's plan for purchasing new computer equipment was an unallowable expense. Honeywell corporate policy was to update its computers when needed. The DCAA reviewed the corporate plans for acquiring new computers. The DCAA reviewed the lease versus purchase agreement but did not question the need for updating computers.

**Allegation 5.** The allegation stated that the Air Force increased program costs and decreased efficiency by splitting the SCN program into two elements, development and sustainment.

**Unsubstantiated.** Before the current contract with Honeywell, the Air Force had five separate contracts with three different contractors to complete development and sustainment tasks for the SCN. The development projects under the previous contracts did not include the tracking station modernization. The sustainment tasks included hardware and software maintenance and depot level repairs. However, SMC officials stated that there were always separate development and sustainment program offices for the SCN program. We could not substantiate that there was an increase in costs or a decrease in efficiency because of the dissimilarity in the scope of work in the current and prior contracts.

# Appendix C. Report Distribution

## Office of the Secretary of Defense

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## Department of the Air Force

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Commander, Space and Missile Systems Center
Auditor General, Department of the Air Force

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Senate Subcommittee on Defense, Committee on Appropriations
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House Committee on Appropriations
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House Subcommittee on National Security, Emerging Threats, and International Relations, Committee on Government Reform
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# Department of the Air Force Comments

**DEPARTMENT OF THE AIR FORCE**
**WASHINGTON, DC**

FEB 6 2004

**Office Of The Under Secretary**

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

SUBJECT: "Report on Air Force Satellite Control Network Contract" IG Report Project No. D2003AB-0148, dated 8 Jan 2004

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

The Air Force concurs with the findings and recommendations of the draft report. The attached comments from the Air Force Space and Missile Systems Center (SMC) Commander provide our coordinated and specific management comments on each finding and recommendation.

The Air Force would like to thank the IG staff for their efforts. For any further actions on this matter, please contact my action officer, Maj Mark Davis at (703) 588-7385.

Robert S. Dickman
Deputy for Military Space

Attachment
SMC/CC detailed comments

# Air Force Space and Missile Systems Center Comments

**DEPARTMENT OF THE AIR FORCE**
**HEADQUARTERS SPACE AND MISSILE SYSTEMS CENTER (AFSPC)**
**LOS ANGELES AIR FORCE BASE, CALIFORNIA**

JAN 2 8 2004

MEMORANDUM FOR SAF/FMP

FROM: SMC/CC

SUBJECT: Air Force Comments to IG Report Project No. D2003AB-0148 "Report on Air Force Satellite Control Network Contract" dated 08 Jan 04

1. This letter is in reply to the DoD IG's request for comments on the subject report. We concur with the draft report's findings and recommendations. The Satellite and Launch Control Systems Program Director's detailed comments to the draft report are attached to this letter.

2. We would like to thank the IG staff for their effort in this investigation. Please contact my action officer Maj Mark Johnson, 310-363-0914, for any further assistance.

V/R,

BRIAN A. ARNOLD
Lieutenant General, USAF
Commander

Atch:
SMC/RN Response Letter

**DEPARTMENT OF THE AIR FORCE**
**HEADQUARTERS SPACE AND MISSILE SYSTEMS CENTER (AFSPC)**
**LOS ANGELES AIR FORCE BASE, CALIFORNIA**

MEMORANDUM FOR SMC/CC

FROM: SMC/RN

SUBJECT: Air Force Comments to IG Report Project No. D2003AB-0148 "Report on Air Force Satellite Control Network Contract" dated 08 Jan 04

1. This is in reply to the DoD IG memorandum requesting comments to the draft subject report. The draft IG report responds to five allegations delivered to the DoD IG Defense Hotline sometime prior to June 2003. It substantiates one allegation; partially substantiates another; and unsubstantiates the remaining three allegations.

2. ALLEGATION #1: The program is in jeopardy and will cost the taxpayer $1.7 billion over the next 15 years due to cost overruns. Allegedly, the cost over runs resulted from Honeywell's intentionally underestimating costs in its cost proposal. Additionally, the allegation stated that the Defense Contract Audit Agency (DCAA) identified an actual $4 million cost over run in FY 2002 and a projected $7 million cost over run for FY 2003.
FINDING: The modernization program for the Air Force satellite tracking station incurred substantial cost over runs of $26.3 million (34 percent), will potentially incur additional cost over runs of $26.3 million (34 percent), and delayed the completion of the scheduled modernization by 2 years. These conditions occurred because of unplanned indirect costs and also because the Space and Missiles Systems Center awarded a contract for modernizing the satellite tracking stations before identifying technical omissions in the contractor's proposal. As a result, the Air Force will continue to maintain an outdated, 50 year-old technology as well as expend monies for modernization while it renegotiates the contract. The report also substantiated the allegation that the Satellite Control Network (SCN) contract for modernizing its satellite tracking stations is at risk because of cost over runs, including cost over runs identified by DCAA for FYs 2002 and 2003. However, it did not substantiate that the total program costs will increase by almost $500 million, from the $1.2 billion to $1.7 billion. Also, it did not substantiate that Honeywell intentionally underestimated costs in its cost proposal.
RECOMMENDATION: The report recommends the Under Secretary of the Air Force review the satellite tracking station modernization program to determine the effect of cost over runs on the program cost, schedule and performance and whether the program goals will be accomplished in an effective and efficient manner.
RESPONSE: We concur. The Under Secretary of the Air Force already constantly reviews the program by receiving a monthly report on the AFSCN (MARs). Also, the Program Executive Officer (PEO) took immediate action, during Spring 2003, after the full extent of the satellite tracking station modernization project's cost growth became apparent. The PEO initiated project reviews with the Honeywell Technology Solutions Incorporated (HTSI) CEO and further designated this activity as a PEO-CEO Executive Committee (EXCOM) activity with his active, detailed and continuing oversight into this project. During the summer of 2003, with PEO, HTSI CEO, and user support, the project was restructured to defer program content while staying within the currently allocated budget authority through FY 2005. This project restructure is

currently being implemented. Additionally, identified out-year program disconnects are being addressed as part of currently ongoing Air Force 2006 Program Objective Memorandum (POM) deliberations. Finally, the EXCOM continues to be an effective PEO-CEO level quarterly forum examining cost, schedule, and performance aspects of the project.

3. ALLEGATION #2: The allegation stated that Honeywell claimed it had an EVMS in place at the time of contract award and incorrectly billed the Air Force $300,000 to construct an EVMS.
FINDING: Honeywell did not satisfy the Satellite Control Network contractual requirement to provide a DoD compliant Earned Value Management System (EVMS) and improperly obtained reimbursement for correcting the system deficiencies. This condition occurred because Honeywell stated in its contract proposal that it had EVMS capabilities when it did not, and the Air Force did not conduct an evaluation of the proposed EVMS before contract award. Without the required EVMS, the Air Force and the contract administrator did not have the information to effectively monitor Honeywell's technical, cost and schedule performance on the satellite modernization contract, and Honeywell may be in violation of the false statement and false claim statutes of the United States Code.
RECOMMENDATION:
Recommendation B.1: Request the Defense Contract Audit Agency to conduct an audit of the costs associated with Honeywell's Earned Value Management System and advise the Air Force of the allowable and unallowable costs
Recommendation B.2: Initiate administrative action pursuant to the Federal Acquisition Regulation to include:

a) Obtaining reimbursement from Honeywell for the allowable or unallocatable costs identified by the Defense Contract Audit Agency for the EVMS
b) Reflecting Honeywell's inability to satisfy the requirement for an Earned Value Management System in the Air Force's next award fee computation

Recommendation B.3: Review the circumstances of Honeywell's assertion concerning the EVMS and initiate appropriate actions (that is, administrative, civil, criminal) against Honeywell for apparent violation of false claim and false statement statutes.
RESPONSE: Concur with recommendations B.1 and B.2a. Recommendation B.2b has already been initially accomplished during the SCNC contract's first and second award fee period assessments, and will continue to be an identified focus item. Concur with recommendation B.3. These items will receive our immediate attention.

4. The Air Force would like to thank the IG staff for their effort into this investigation. Please contact my action officer Maj Mark Johnson, 310-363-0914, for any further assistance.

EDWARD L. BOLTON, JR. Colonel, USAF
System Program Director
Satellite and Launch Control
Systems Program Office

# Team Members

The Acquisition Management Directorate, Office of the Deputy Inspector General for Auditing of the Department of Defense prepared this report. Personnel of the Office of the Inspector General of the Department of Defense who contributed to the report are listed below.

Bruce A. Burton
Roger H. Florence
David H. Griffin
Patrice A. Cousins
Amber M. Lyons
Jacqueline N. Pugh