

W

September 30, 1998

TO: 100/Center Director, Goddard Space Flight Center

FROM: W/Assistant Inspector General for Auditing

SUBJECT: Final Report on the Audit of the Consolidated Network
Missions Operations Support Contract (CNMOS), Transition and
Implementation
Assignment Number A-HA-98-003
Report Number IG-98-041

The subject final report is provided for your use and comment. Our evaluation of your response is incorporated into the body of the report. With respect to management's nonconcurrence with our recommendation, we reaffirm our position. Accordingly, we request that management reconsider its position on the recommendation and provide additional comments by October 30, 1998.

If you have questions concerning the report or would like to schedule an exit conference, please contact Mr. Daniel Samoviski, Program Director for Earth and Space Science Audits, at 301-286-0497, or Ms. Nora Thompson, Auditor-in-Charge, at 757-864-3268. We appreciate the courtesies extended to the audit staff. The report distribution is in Appendix E.

[original signed by]

Russell A. Rau

Enclosure

cc:

B/Chief Financial Officer

G/General Counsel

H/Acting Associate Administrator for Procurement

JM/Director, Management Assessment Division

IG-98-041

**AUDIT
REPORT**

**CONSOLIDATED NETWORK MISSION
OPERATIONS SUPPORT CONTRACT, TRANSITION
AND IMPLEMENTATION**

September 30, 1998



National Aeronautics and
Space Administration

OFFICE OF INSPECTOR GENERAL

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Acronyms

CNMOS	Consolidated Network Mission Operations Support
CSC	Computer Sciences Corporation
CSOC	Consolidated Space Operations Contract
FAR	Federal Acquisition Regulation
GSFC	Goddard Space Flight Center
NASA	National Aeronautics and Space Administration
PBC	Performance-Based Contracting
SOMO	Space Operations Management Office

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CONSOLIDATED NETWORK MISSION OPERATIONS SUPPORT CONTRACT

EXECUTIVE SUMMARY

INTRODUCTION

On April 15, 1996, NASA signed a tripartite agreement with AlliedSignal Technical Services (Allied) and Computer Sciences Corporation (CSC) to provide support services for network and mission operations; systems, engineering, and analysis; and operations and maintenance of radar telecommunications. The agreement consolidated three existing support service contracts¹ into Allied contract NAS5-31000, the Consolidated Network Missions Operations Support (CNMOS) contract. The CNMOS contract is a cost-plus-award-fee contract with total negotiated costs of about \$1.8 billion. The former Mission Operations and Data Systems Directorate (Code 500) at Goddard Space Flight Center led the consolidation effort because two of the prior contracts supported Code 500 divisions.

NASA policy is to implement performance-based contracting (PBC),² wherever feasible, to produce contract savings. In October 1996, Allied and NASA negotiated \$34.8 million in a contract cost reduction. The reduction represented the costs that were avoided by consolidating the three contracts. NASA agreed to share 20 percent of the negotiated savings with Allied, or about \$7.2 million.

OBJECTIVES

The audit objectives were to determine whether:

- Contractors are complying with the cost savings sharing clause.
- NASA has adequately planned to provide services from September 30, 1997, until the award of the Consolidated Space Operations Contract (CSOC).
- Cost savings to NASA, from the consolidation, are occurring and reasonable.

¹ NAS5-31000; Network Mission and Operations Support, Allied; NAS5-31500, Systems, Engineering, and Analysis Support, CSC; and NAS5-32153, Operations and Maintenance of Radar Telecommunication, Optics, and Television Systems and Meteorological Forecasting at Wallops Flight Facility, Allied.

² Performance-based contracting (PBC) refers to a NASA procurement initiative that structures all aspects of an acquisition around the purpose of work to be performed as opposed to how the work is to be performed. PBC emphasizes objective, measurable performance requirements and quality standards in developing statements of work, selecting contractors, determining contract-type and incentives, and performing contract administration.

See Appendix A for additional details on the audit objectives, scope, and methodology.

RESULTS OF AUDIT

Allied has complied with reporting requirements of the cost savings sharing clause. Additionally, NASA adequately planned to provide services, through a contract extension, from October 1, 1997, until the award of the CSOC. However, the Allied cost reduction proposal for the period April 15, 1996, through September 30, 1997, overstates savings by about \$9.0 million. As a result, Allied received \$1.8 million more than entitled under the contract's cost savings sharing clause.

RECOMMENDATION

The Agency should seek a recoupment of the overstated share of savings paid to Allied.

***MANAGEMENT
RESPONSE AND
EVALUATION OF THE
RESPONSE***

Nonconcur. Management stated that the audit calculations were inaccurate. Further, the audit methodology used two separate time periods rather than the single contract performance period. No overstated savings occurred, and there is an inadequate basis for recoupment of savings.

In response to management's nonconcurrency, we reaffirm our position, taking into account new data Goddard Space Flight Center provided in its response that was not available during the audit. We revised the finding to reflect the new data presented, which did not change our position but did reduce the overstated savings by \$.2 million, and we request additional comments on the final report.

BACKGROUND

CONSOLIDATION AND PERFORMANCE BASED CONTRACTING

To reduce contract costs in an environment of budget cuts, cost savings initiatives, and decreased civil service involvement in contract oversight, NASA, together with Allied and CSC, developed the consolidation agreement to reduce contract costs by \$40 million. NASA also retained the contractor performance level that had been negotiated for the three prior contracts. Additionally, NASA used PBC for the CNMOS contract award. The PBC approach is intended to significantly reduce contract costs by:

- combining functions that were performed by Allied and CSC into a single contract function,
- giving the contractor more control over how the work is done,
- using metrics to measure results,
- replacing task orders with a significantly lower number of agreements, and sharing 20 percent of actual cost savings with Allied.

ALLIED COST REDUCTION PROPOSALS

In May 1996, Allied submitted a cost reduction proposal describing changes in its work practices and organization that would occur after April 15, 1996, the date of consolidation. Allied submitted an updated proposal in October 1996. The proposal covered the period April 1, 1996, through September 30, 1997. Allied presented three key estimates: (1) the baseline or costs before consolidation, (2) the cost after consolidation, and (3) shared savings. Shared savings are the difference between the baseline and cost after consolidation. The three estimates summarized the total dollar amount for major cost categories, for example, labor, material, and other direct costs. Allied also summarized personnel positions the consolidation would eliminate. Allied's proposal provided Goddard Space Flight Center (GSFC) management a brief description of the changed work practice and indicated that 483 personnel positions would be eliminated.

***THE NEGOTIATED
AGREEMENT***

Negotiated costs for the CNMOS contract total about \$1.8 billion (see Appendix B). NASA and Allied agreed to reduce CNMOS contract costs by about \$36 million. The \$36 million consists of:

	(\$ Millions)
Cost reduction from Allied proposal	\$34.8
Base fee waived by CSC	<u>1.2</u>
	\$36.0

The \$34.8 million represents the amount that the contracting officer negotiated as a result of the Allied cost reduction proposal. The \$1.2 million represents base and award fee³ that CSC waived under CNMOS. Under its prior contract, NAS5-31500, CSC was a prime contractor and eligible to receive base and award fee on total contract costs. Under CNMOS, CSC agreed to become a subcontractor and waive base and award fees. The contracting officer agreed to increase the negotiated cost reduction by the waived base and award fees.

NASA agreed to share actual CNMOS savings with the contractor in an 80/20 percent share ratio. The maximum share Allied could receive was 20 percent of the negotiated \$36 million cost reduction, or \$7.2 million. The contracting officer required Allied to submit a quarterly report of CNMOS savings. The report states the negotiated baseline and total incurred costs for the CNMOS contract. The report also shows the calculated CNMOS savings as the difference between the baseline and total incurred costs. As of October 1997, Allied has received a total of \$7.2 million in shared CNMOS savings.

³ Base and award fee are components of a contractor's fee on a cost-plus-award-fee contract. Base fee is an amount (which may be zero) fixed at inception of the contract. The second component is award fee, which is based on a judgmental evaluation by the Government, and should provide motivation for excellence in contract performance.

FINDING AND RECOMMENDATION

NEGOTIATED SAVINGS ARE OVERSTATED

The Allied cost reduction proposal for the period April 1, 1996, through September 30, 1997, overstates savings by about \$9.0 million. The overstatement exists because (1) Allied provided inaccurate baseline data on which it calculated savings and (2) the contracting officer did not follow acceptable negotiation practices, including facilitating a thorough technical evaluation of the contractor's proposal. As a result, Allied received \$1.8 million more than entitled under the contract's shared savings clause.

Federal Acquisition Regulation Requirements

The Federal Acquisition Regulation (FAR), subpart 15.8, Price Negotiations, describes requirements for contractor proposal data and acceptable negotiation practices.

- The proposal must contain sufficient data to support the contractor's projections.
- Proposal data must be sufficient for an adequate cost analysis. Sufficient data requires an adequate time-phased breakdown of labor to verify the reasonableness of the contractor's projections. The breakdown must show labor rates, hours, and cost by skill category to allow the evaluation of proposed labor skill mix and cost.
- The contracting officer must ensure that contractor data is sufficient to (1) support projections in the proposal and (2) assess the technical necessity of proposed cost elements.
- The contracting officer must (1) ensure that technical evaluators perform an adequate assessment of proposed labor cost and (2) fully consider that assessment in negotiations. Technical evaluators serve as subject matter experts to assist the contracting officer in determining the reasonableness of proposed labor hours, skill mix, and cost.

Technical Evaluation of Allied's Proposed Reductions

As part of the negotiation process, NASA conducted a technical evaluation and fact finding. Because Code 500 technical personnel were formerly responsible for oversight of the prior contracts with Allied and CSC, the contracting officer required those technical personnel to perform a technical evaluation of the Allied proposal. In August 1996, technical evaluators submitted two reports to the contracting officer that questioned 91 and 110 positions, respectively,

of the contractor's proposed personnel reductions. The evaluators concluded Allied (1) used unfilled contractor personnel positions in its baseline projections and (2) included reductions of personnel positions that were NASA cost saving initiatives and had been planned before April 1996. One of the technical evaluation reports valued the 91 positions at \$8 million. As part of the fact finding discussions with Allied and CSC, the contracting officer obtained written explanations from Allied addressing the questioned positions. The contracting officer accepted 91 of the 110 questioned personnel positions as valid consolidation cost reductions. He took exception to 19 of the proposed personnel reductions.

Factors Contributing to Overstated Savings

Our review and analysis of the consolidated CNMOS contract award process showed that two major factors caused negotiated cost savings to be overstated:

- Allied's proposal contained inaccurate baseline figures.
- The contracting officer did not follow acceptable negotiation and award practices as prescribed by the FAR.

Contractor Data for Savings Computation

The proposal did not give the number of on-board personnel at April 15, 1996, the date of consolidation. During the audit, Allied provided documentation that states that the three prior contracts had a total of 3,550 on-board personnel at that date. However, cost reports show the three prior contracts had a total of 3,034 on-board personnel. The Allied baseline was incorrect by 516 positions:

	Personnel
Allied number of personnel at 4/15/96	3,550
Actual number of personnel at 4/15/96	<u>3,034</u>
Difference	516

Also, the proposed number of personnel reductions exceeded the actual number of personnel reductions. Consolidation started on April 15, 1996. From April 15 through September 30, 1996, Allied changed its structure and work practices resulting in the following changes in the number of on-board personnel:

	Personnel
On-board personnel at 4/15/96	3,034
On-board personnel at 9/30/96	<u>2,654</u>
Difference	380

Allied's proposed 483-position reduction exceeded the actual number of 380 by 103 positions. The 103 overstated positions are valued at \$9.0 million. We calculated the value of the 103 positions (see Appendix C) by using the NASA technical evaluation report, which valued the 91 questioned positions at \$8 million:

Code 500 Cost of 91 Positions	\$8.0 million
Estimated Cost per Position (\$8 million divided by 91)	\$87,912
Value of 103 Positions (\$87,912 times 103)	\$9.0 million

Acceptable Negotiation Practices

The contracting officer did not use acceptable negotiation practices in evaluating the Allied proposal. The proposal, dated May 20, 1996, and the updated proposal, dated October 30, 1996:

- Stated labor hours but did not state the number of positions projected to be on board at September 30, 1996, or September 30, 1997. Technical evaluators could not verify the accuracy of Allied's data or assess its baseline labor projections without the number of on-board personnel.
- Did not provide a sufficient breakdown of proposed labor cost, for example, a time-phased breakdown, by division, showing skill mix, labor hours, and cost. Without specific details, technical evaluators could not fully assess the reasonableness of labor in Allied's proposed estimates.

After receipt of the proposal, the contracting officer did not follow acceptable negotiation practices. Specifically, he did not:

- Require a proposal that used on-board personnel for the determination of cost savings.
- Require a proposal with sufficient data for an adequate labor cost analysis.
- Provide the technical evaluators the information they needed to fully evaluate the proposed baseline.

Evaluators requested additional data and explanation for the proposed estimates but did not receive the requested information. For example, only one evaluator of nine received detailed staffing projections.

Additionally, the contracting officer did not provide Allied's written explanation to the technical evaluators. None of the nine evaluators we interviewed had seen the explanation or knew how the contracting officer resolved the questioned positions.

***Contractor Cost Savings
Share Affected***

As a result of inaccurate contractor baseline data and the contracting officer's failure to follow acceptable negotiation practices, Allied received \$1.8 million (questioned costs) more than it should receive under the contract's shared savings clause. We determined this amount by applying the 20 percent shared savings rate to the \$9.0 million overstatement related to the 103 overstated positions (see Appendix C).

RECOMMENDATION

The Center Director, GSFC, should direct the contracting officer for the CNMOS contract to seek a recoupment of the overstated share of savings paid to Allied.

MANAGEMENT'S RESPONSE

Nonconcur. Management stated that we made two errors in our calculations of the savings associated with the cost reduction proposal and the resulting contractor's cost sharing amount. First, management stated that the audit calculations are based on a 12-staff-month conversion factor to full-time-equivalent positions rather than the full performance period of 17.5 months. Second, management disagrees with our calculation of actual contractor reductions achieved using two "snapshots" of derived on-board staffing levels, one for April 1996 and one for September 1996. Management believes these "errors" resulted in an inaccurate computation of the actual staffing reductions achieved. Management also provided its own calculation, which shows the contractor met its proposed staffing reductions. Therefore, there is no basis for seeking recovery of shared savings.

***EVALUATION OF
MANAGEMENT'S RESPONSE***

We disagree with management's response and reaffirm our position, taking into account new data GSFC provided. We performed our analysis based on the data made available to us during the audit. The methodology provided a reasonable basis for conclusions, and the calculation overstated savings as stated in our draft report.

We believe the 17.5 month conversion factor is inappropriate. Allied required organizational and work process changes in order to begin making the position reductions it proposed. Based on contractor schedules in the proposal and audit interviews of key officials, it is our position that the changes were not in place on April 15, 1996, but

rather in September 1996. Therefore, the 12-month period from September 1996 to September 1997 is the most appropriate to use under the circumstances.

The computation of staff reductions also required two “snapshots” to properly allocate savings to contractor actions under the negotiated cost reduction proposal. Our audit determined that not all saved costs were attributable to the negotiated cost reduction proposal. During the cost reduction proposal negotiation, the CNMOS function was placed under the direction of the Space Operations Management Office (SOMO). SOMO, in turn, mandated budget reductions after September 1996 that were 5 to 10 percent above those budget reductions anticipated at the time of negotiations. We confirmed the SOMO budget reductions and actual consolidation savings with NASA Service Level Area and General Service Area owners.⁴

It is our position that the contractor should share savings only when the savings are attributable and allocable to the negotiated cost reduction proposal. The contract shared savings clause states that the contractor shall share in any net cost savings realized from accepted and implemented cost reduction proposals. Therefore, shared savings would not apply to savings that occurred as a direct result of the SOMO-directed budget reductions. Those savings are not related to the negotiated proposal.

NASA cannot distinguish CNMOS savings allocable to the negotiated cost reduction proposal and savings attributable to SOMO directed budget reductions. Allied reports of actual CNMOS savings show total costs without an adjustment for the SOMO-directed budget reductions. An adjustment requires the percentage amount of the SOMO budget reductions, the date SOMO directed the reductions, and the number of contractor position reductions attributable to them. Therefore, a budget reduction of 5 to 10 percent would yield a range of 133 to 355 position reductions.⁵ From September 1996 through September 1997, Allied reduced about 290 additional contractor positions. Because those reductions include the effects of SOMO-

⁴ Under CNMOS, Service Level Areas replaced task orders as the level at which technical work is managed. CNMOS also established General Service Areas to manage work that supports multiple Service Level Areas. The owners of both areas stated that the SOMO, Johnson Space Center, directed budget reductions of 5 to 10 percent above the budget reductions anticipated at the time of negotiations. Owners attributed actual consolidation savings after September 1996 to the SOMO-directed budget cuts.

⁵ We estimated the range by applying rates of 5 and 10 percent to the number of contractor positions provided by Allied at April 15, 1996 (3,550), the actual number at April 15, 1996 (3,034), and the actual number at September 30, 1996 (2,654).

directed budget reductions, NASA has an inadequate basis for allocating them to the negotiated cost reduction proposal.

Responsive actions, by Allied and CSC to the SOMO budget reductions helped maintain the contract level of performance through September 1997. From September 1996 to September 1997, Allied received award fee based on taking effective management action to control contract costs and maintaining the service level. By including the SOMO-directed personnel cuts in its calculations, GSFC is, in effect, paying Allied an additional 20 percent for management cost control for which Allied already received an award fee.

After issuance of the draft report, GSFC provided us data, not available during the audit, regarding the number of actual position reductions through September 1996. The data indicated the contractor reduced 380 rather than 366 positions, a difference of 14 positions. We agree with the updated number of reductions. We estimated the value of the 14 positions at \$1.3 million. Accordingly, we reduced the \$10.3 million overstated negotiated savings shown in the draft of this report by \$1.3 million to arrive at \$9.0 million. Therefore, as shown in the finding in this final report, the contractor received \$1.8 million more than entitled under the shared savings clause. We request that management reconsider its position in response to the final report.

OBJECTIVES, SCOPE, AND METHODOLOGY

OBJECTIVES

The audit objectives were to determine whether:

- Contractors are complying with the cost savings sharing clause.
- NASA had adequately planned to provide services from September 30, 1997, through the award of the CSOC.
- Cost savings to NASA, from the consolidation, are occurring and reasonable.

SCOPE AND METHODOLOGY

We conducted the audit in accordance with generally accepted government auditing standards. The audit included examinations and tests of applicable records and documentation as we considered necessary. Specifically, we:

- Interviewed the contracting officer, contracting officer's technical representative, Service Level Area and General Service Area owners, NASA Technical Evaluators, the NASA Resource Analyst, the Allied Contract Manager, and the Allied Associate Program Manager for CNMOS.
- Reviewed and analyzed the Cost Reduction Proposal, contract NAS5-31000, dated May 20, 1996; the Revised Cost Reduction Proposal, contract NAS5-31000, dated October 30, 1996; Code 500 technical evaluations, submitted June through August, 1996; Allied and CSC 533 reports, fiscal years 1994 through 1997; Allied Financial Analysis Reports, fiscal years 1994 through 1997; Allied responses to fact finding, May 1996 and August 1996; the Plan for Conducting Negotiations under NAS5-31000, dated October 21, 1996; the Price Negotiation Memorandum, dated November 19, 1996.

MANAGEMENT CONTROLS

The audit tested management controls over the estimation and validation of CNMOS cost savings. The report finding discusses a management control weakness that affected negotiated cost savings. We tested the reliability of computer-generated data by reviewing supporting documents for the data.

APPENDIX A

We found no instances where computer-generated data appeared unreliable.

FIELD WORK

We performed fieldwork from November 1997 through June 1998 at GSFC, Greenbelt, Maryland.

**NEGOTIATED COSTS FOR
CONTRACT NAS5-31000**

Negotiated Costs at 4/15/96, Contract NAS5-31000 (before the tripartite agreement)		\$1,629,233,930
Negotiated Costs for NAS5-31500 and NAS5-32153 (Contract Modification 442)		<u>197,240,777</u> \$1,826,474,707
Costs for Change Orders (4/15/96 through 11/1/96) (Contract Modification 474)		<u>7,629,704</u> \$1,834,104,411
Negotiated Reductions:		
Cost reduction (Note 1)	\$34,809,300	
Waived CSC fee (Note 2)	<u>1,169,151</u>	
	\$35,978,451	<u>- 35,978,451</u>
Total Negotiated CNMOS Contract Costs (Contract Modification 474)		\$1,798,125,960

Notes

1. The cost reduction was negotiated by the contracting officer as a result of the Allied cost reduction proposal. The \$34.8 million shown above is also discussed in the report finding.
2. Under the previous contract, NAS5-31500, CSC was a prime contractor. As prime contractor, CSC was eligible to apply base and award fee to total contract costs. Under contract NAS5-31000, CSC became a subcontractor and agreed to waive base and award fee. Contract modification number 474 reduced negotiated costs on Allied contract NAS5-31000. In the contract modification, the contracting officer added the waived base and award fee to the negotiated cost reduction of \$34.8 million. The contracting officer used the total, \$36.0 million, to reduce negotiated costs on NAS5-31000.

CALCULATION OF QUESTIONED COSTS

Estimated Costs for 103 Positions

Code 500 Estimated Cost of 91 questioned positions	\$ 8.0 million
Estimated Cost per Position (\$8 million divided by 91 positions)	\$ 87,912
Costs for 103 Positions (\$87,912 times 103 positions)	\$ 9.0 million

Overstated Cost Savings Share to Allied

Costs for 103 Positions	\$ 9.0 million
Cost Savings Sharing Rate for Allied	20 percent
Overstated Cost Savings Share to Allied (\$9.0 million times 20 percent)	\$ 1.8 million

MANAGEMENT'S RESPONSE

National Aeronautics and
Space Administration
Goddard Space Flight Center
Greenbelt, MD 20771



SEP 18 1998

Reply to Attn of: 201

TO: NASA Headquarters
Attn: W/Assistant Inspector General for Auditing

FROM: 100/Director

SUBJECT: GSFC Response to Office of Inspector General (OIG) Draft Audit Report
On the Consolidated Network Missions Operations Support (CNMOS)
Contract Transition and Implementation, dated August 27, 1998,
Assignment Number A-HA-98-003

Thank you for the opportunity to respond to the subject draft report.

We do not concur with the recommendation in the OIG draft report. We have reached this conclusion based on our review of the draft report, our review of audit working papers, and our followup discussions with audit staff.

We have determined that the OIG calculations are in error and do not provide an adequate basis for the OIG's conclusion that we should recoup \$2 million in shared savings from the contractor. The enclosure provides details of our analysis.

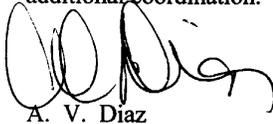
There are a number of key elements that contribute to the audit calculation errors. One is that because the CNMOS Cost Reduction Proposal (CRP) presents savings to be achieved in staff months of effort and the resulting cost savings in direct labor hours, any expressions of staffing levels, whether numbers of positions, full-time-equivalents (FTE's), or on-board-equivalents (OBE's), either in the draft audit report or in the management discussion, must be derived numbers based on conversion of either staff months or direct labor hours. Furthermore, the CRP covers a period of performance of 17.5 months, and the CRP proposed staff-month reductions are based on savings that will accrue over this entire period of time. It is critically important that any conversion of proposed staff-month or direct labor hour data to derived staffing levels be based on the entire 17.5 month period of performance.

The OIG calculations include a double-pronged error. First, the audit calculations used a staff months conversion factor to FTE of 12 rather than the full performance period of 17.5. Secondly, the audit calculated actual contractor reductions achieved using two "snapshots" of derived on-board staffing levels, one for April 1996 and one for September 1996; and then these were compared to the contractor reductions proposed to be achieved over the entire 17.5 month period, April 1996 through September 1997. These compounded errors resulted in the incorrect audit computation of proposed staffing reductions, an incorrect computation of actual staffing reductions achieved, and therefore an incorrect conclusion regarding the success of the contractor's cost savings. The enclosed GSFC calculations show that the contractor met his commitment of staffing reductions, upon which negotiated shared savings were based; and there is no basis for seeking recoupment of shared savings.

As a secondary matter, we also believe that the OIG's questioned 530 ("number of personnel") in the contractor's April 15, 1996, baseline is overstated based on our preliminary analysis. While this does not affect the recommendation itself, we are prepared to perform a more indepth analysis based on actual contractor financial data to establish an accurate record.

We would be happy to continue to work with audit staff to resolve this matter.

Please contact Ms. JoAnn Clark, GSFC Audit Liaison Officer, for further information or additional coordination.



A. V. Diaz

Enclosure

cc:

HQ/B/Mr. A. Holz
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HQ/YB/Ms. D. Santa

GSFC - 9/98

**Analysis of Contractor Staffing Levels
Consolidated Network & Mission Operations Support (CNMOS) Contract**

Contractor proposed reduction in staff months 5,796 staff months
(April 15, 1996, through September 30, 1997 -
17.5 months from consolidation to contract completion)

Per audit report/auditor workpapers:

Auditor calculation of proposed reduction	5796 staff months / 12 months	483 Positions *
Auditor calculation of total actual reduction through September 1996 - 5.5 months of 17.5-month effort		366 OBE's *
Auditor-calculated difference between proposed and actual staffing (represented as "overstated positions" or non-achievement of proposed reductions)	366 actual staffing reductions vs. 483 proposed reductions	-117 Positions *
Auditor calculation of overstated cost avoidance/savings	117 positions x \$87.9K/position	\$10.3M
Auditor-recommended recoupment of shared savings previously awarded to contractor	\$10.3M savings x 20% contractor share	\$2.0M

The auditor used a staff month conversion factor of 12 months to calculate proposed staffing reductions rather than a 17-month factor consistent with the 17.5-month period of performance during which savings would be achieved. In addition, the auditor conclusion that proposed staffing reductions were overstated is based on the assumption that all proposed reductions would be achieved during the first 5.5 months (by September 1996) of the 17.5-month period of performance covered by the Cost Reduction Proposal.

* It is unclear to GSFC whether the auditor numbers represent positions, headcount, FTE's, or OBE's.

Per GSFC Calculations:

GSFC calculation of proposed reduction in FTE's (based on 17.5-month time period covered by Cost Reduction Proposal)	5796 staff months / 17 months	341 FTE's
GSFC calculation of total actual reduction through September 1996 (FTE's) - 5.5 months of 17.5-month effort		380 FTE's
GSFC-calculated difference between proposed and actual September 1996 FTE's	380 actual FTE reductions at 9/96 vs. 341 proposed FTE reductions through 9/97	39 FTE's

GSFC methodology: for comparison purposes, analysis was performed using the same comparison points in time as shown in the audit report. GSFC used a staff month conversion factor of 17 months to calculate proposed staffing reductions, resulting in a proposed FTE reduction which is significantly lower than the number shown in the audit. In addition, the comparison of proposed versus September 1996 actual FTE reductions shows that the contractor achieved his proposed 17.5-month FTE reductions during the first 5.5 months after consolidation.

GSFC conclusion: Based on these calculations, the contractor met his commitment of staffing reductions upon which negotiated shared savings were based; therefore, there is no basis for seeking recoupment of shared savings.

FTE - Full Time Equivalent (based on ~1860 hours per productive workyear) - excludes holidays/leave
OBE - On-Board Equivalent (based on 2080 hours per workyear) - 40 hours/week 52 weeks/year

ENCLOSURE

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