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Administration Of Cost-Plus-Award-Fee-Type Contract For Aircraft Maintenance Support Services B-133394

Manned Spacecraft Center National Aeronautics and Space Administration

UNITED STATES GENERAL ACCOUNTING OFFICE

APRIL 14, 1971

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UNITED STATES GENERAL ACCOUNTING OFFICE
WASHINGTON, D.C. 20548

CIVIL DIVISION

B-133394

Dear Dr. Low:

The accompanying report presents the results of our review of the administration of the cost-plus-award-fee-type contracts with Dynalectron Corporation for aircraft maintenance support services at the Manned Spacecraft Center, Houston, Texas.

In response to our previous report on our review of the administration of a cost-plus-award-fee-type contract for computer programming and operational support services (B-133394, December 18, 1969), the National Aeronautics and Space Administration furnished to us its overall concepts and views on award fee contracting. Matters in this report have been discussed with officials of the National Aeronautics and Space Administration and of the Manned Spacecraft Center. Any additional written comments on the specific matters discussed in this report and on the actions to be taken by your agency will be appreciated.

We are recommending that the National Aeronautics and Space Administration examine into the work requirements of the aircraft maintenance contract with a view to establishing a performance evaluation plan which will place greater emphasis on objective performance standards in terms of output criteria and that it make use of available performance indicators. In the event that the National Aeronautics and Space Administration concludes that such standards cannot be developed, we believe that contracting for aircraft maintenance on a cost-plus-award-fee basis should be reconsidered.

Your attention is invited to section 236 of the Legislative Reorganization Act of 1970 which requires that you submit written statements of the action taken with respect to the recommendation. The statements are to be sent to the House and Senate Committees on Government Operations not later than 60 days after the date of this report and to the House and Senate Committees on Appropriations in connection with the

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first request for appropriations submitted by your agency more than 60 days after the date of this report.

Copies of this report are being sent to the Director, Office of Management and Budget, to the House and Senate Committees on Government Operations, and to the House and Senate Committees on Appropriations.

Sincerely yours,

A. T. Samuelson

Director, Civil Division

The Honorable George M. Low
Acting Administrator, National Aeronautics
and Space Administration

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ABBREVIATIONS

CPAF	Cost plus award fee
MSC	Manned Spacecraft Center
NASA	National Aeronautics and Space Administration

D I G E S T

WHY THE REVIEW WAS MADE

During fiscal year 1970 the Manned Spacecraft Center administered 23 support services contracts totaling about \$110 million. Of these contracts, 13 totaling about \$81 million were cost-plus-award-fee contracts.

Cost-plus-award-fee contracts are used extensively at other National Aeronautics and Space Administration (NASA) locations. This type of contract provides for payment to the contractor of a variable fee determined subjectively by Government evaluators on the basis of periodic evaluations of the quality of the contractor's performance against criteria set forth in the contract. The contract provides for a base fee, which may be zero, and for an upward adjustment of the fee which is called an award fee. After the award fee has been determined it is not subject to the disputes clause of the contract.

The General Accounting Office (GAO) reviewed Manned Spacecraft Center contracts with Dynallectron Corporation for aircraft maintenance support services to determine the adequacy of award fee evaluations and the need for and feasibility of establishing objective standards for contractor evaluations on the basis of contractor performance or output.

FINDINGS AND CONCLUSIONS

For the most part, objective measurement standards, as set forth by NASA's cost-plus-award-fee contracting guide, had not been developed for use in evaluating the contractor's performance. Consequently, award fees were paid to the contractor primarily on the basis of opinions and judgments of Manned Spacecraft Center evaluators as to the contractor's performance. (See p. 6.)

GAO's review showed that guidance on aircraft maintenance operations is available from Air Force sources and that Manned Spacecraft Center personnel are sufficiently involved in the details of maintenance management to establish work output measurement standards for objective

evaluation of whether both the quality and the timeliness of the contractor's work are in accordance with NASA's cost-plus-award-fee contracting guide. (See pp. 10 and 11.)

GAO found that deviations from established award fee distribution guides and unsupported award fee adjustments by higher level evaluators resulted in higher fees being paid to the contractor. GAO concluded that in certain instances the contractor received an award fee for excellent performance when, in fact, its performance was supportable at only the high-good level. (See pp. 14 through 16.)

RECOMMENDATIONS OR SUGGESTIONS

GAO recommends that NASA examine into the work requirements of the aircraft maintenance contract with a view to establishing a performance evaluation plan which will place greater emphasis on objective performance standards in terms of output criteria and that it make use of available performance indicators. In the event that NASA concludes that such standards cannot be developed, we believe that contracting for aircraft maintenance on a cost-plus-award-fee basis should be reconsidered. (See p. 17.)

AGENCY ACTIONS AND UNRESOLVED ISSUES

Manned Spacecraft Center officials with whom GAO discussed this matter expressed a willingness to explore the possibilities of work order evaluations based on output measurement standards. They noted, however, that such evaluations represent a significant change from the present evaluation plan and that the present staffing levels may not be adequate to implement the change. (See p. 18.)

CHAPTER 1

INTRODUCTION

The General Accounting Office made a review of the cost-plus-award-fee (CPAF) contracts with the Dynalelectron Corporation for aircraft maintenance support services provided to the National Aeronautics and Space Administration's Manned Spacecraft Center (MSC), Houston, Texas. The purpose of our review was to determine the adequacy of award fee evaluations and the need for and feasibility of establishing objective standards for contractor evaluations on the basis of contractor performance or output.

A CPAF contract is a cost-reimbursement type of contract. According to NASA, it is appropriate for use in situations where it is difficult to specify all contractual requirements prior to negotiation and is particularly suitable for use in contracting for support and nonpersonal services.

The CPAF type of contract provides that the contractor be paid a variable fee determined subjectively by designated Government personnel on the basis of periodic evaluations of the quality of the contractor's performance against criteria set forth in the contract. This type of contract provides for a base fee, which in some contracts may be set at zero, and for an upward adjustment of the fee, called an award fee. Once the award fee is determined, it is not subject to the disputes clause of the contract.

For about 3 years prior to October 29, 1965, MSC obtained its aircraft maintenance support services from the Air Force. The maintenance services were actually provided by the Dynalelectron Corporation under an Air Force time-and-materials-type contract. From October 29, 1965, through October 31, 1966, MSC obtained these services directly from Dynalelectron under a CPAF contract which had been competitively negotiated. From November 1, 1966, through October 30, 1969, these services were obtained from Dynalelectron under CPAF contracts which had been negotiated on a sole-source basis. From October 31, 1969, to October 30, 1970,

Dynalectron provided aircraft maintenance services under a competitively negotiated CPAF contract. Concerning the contract for the period October 31, 1970, through October 31, 1971, these services were negotiated with Dynalectron on a sole-source basis.

The estimated cost and fees paid are set forth below.

Year ending October	Estimated cost	Base fee	Award fee		
			Maximum amount	Amount paid	Percent paid
1966	\$1,323,956	\$12,500	\$ 60,000	\$ 53,216	89
1967	2,353,000	1	140,000	114,000	81
1968	2,747,680	-	166,520	121,935	73
1969	2,935,972	-	189,400	176,360	93
1970	3,275,000	-	203,000	(a)	-
1971	3,568,130	-	237,000	(b)	-

^aThe award fee available for the first and second 4-month evaluation periods was \$135,334, of which the contractor received \$106,550, or about 79 percent.

^bAt the time of our review at MSC, the first evaluation period was not completed, and no award fee had been determined.

The specific support service functions provided by Dynalectron included service, maintenance, modification, and ground support of aircraft assigned to MSC's Aircraft Operations Office. The following aircraft were assigned to MSC on June 30, 1969.

Airplanes	38
Helicopters	4
Lunar landing training vehicles	<u>2</u>
Total	<u>44</u>

The NASA Cost Plus Award Fee Contracting Guide (NHB 5104.4) dated August 1, 1967, provides contracting guidance and describes NASA's policies and concepts

concerning the use and administration of CPAF contracts. The guide points out the necessity for a performance evaluation plan which includes (1) the criteria against which the contractor's performance will be evaluated; for example, the timeliness with which particular types of jobs are completed, and (2) the standards of measurement to be applied to the selected criteria; for example, the number of times particular jobs are completed on time as compared with the number of times they are delayed.

Evaluation of Dynalectron's performance was accomplished by an Award Fee Evaluation Committee and an Award Fee Evaluation Board. The committee met monthly and its members developed a consensus evaluation, including scores. Periodically, the committee prepared, for presentation to the board, a consolidated evaluation report which included scores and a suggested fee. This report, initially prepared every 3 months, is now prepared every 4 months. The board considers the committee's presentation and makes its recommendation to an official who decides on the award fee to be paid to the contractor.

CHAPTER 2

NEED TO REVISE PERFORMANCE EVALUATION PLAN

Our review showed that MSC's performance evaluation plans for aircraft maintenance support services, for the most part, did not include objective standards by which the contractor's level of performance could be measured to determine the award fee. The omission of objective measurement standards is contrary to instructions in NASA's CPAF contracting guide, which requires that objective standards be provided for evaluating the performance of contractors. We found that, in the absence of objective standards, award fees had been paid to the contractor primarily on the basis of opinions and judgments by MSC's evaluators.

LACK OF OBJECTIVITY IN MSC'S EVALUATION OF DYNALECTRON'S PERFORMANCE

Although NASA's CPAF contracting guide describes a CPAF contract as one with a variable fee determined by subjective evaluation of the contractor's performance, it provides that such subjective evaluation include objective measurements whenever such standards are appropriate and can be defined. The guide states that, for the satisfactory operation of the evaluation procedures, the performance evaluation plan should clearly define input and output--input evaluation being largely subjective and output evaluation being objective.

NASA's CPAF contracting guide adds emphasis by stating that the evaluation plan must clearly define performance criteria in terms which express results rather than causes or kinds of effort. In addition, the guide states that an essential element required to ensure a realistic evaluation of contractor performance is the standard of measurement to be applied to the selected criteria.

The CPAF contracting guide states that the key elements missing in some early CPAF contracts were the standards by which contractor performance criteria were to be evaluated. The guide states also that, in preparing CPAF contracts, the project office should provide objective criteria, whenever

possible, and a complete and comprehensive set of standards against which to measure contractor performance.

In its discussion of evaluation standards, the CPAF contracting guide states that:

"The observation that some objective criteria and standards cannot be generated is difficult to defend. *** For nonhardware-oriented results, if a sound description of what constitutes acceptable work cannot be described, there should be no effort to incentivize the performance." (Under-scoring supplied.)

The MSC evaluation plan for the 1st contract year included objective measurement standards for two criteria-- control of wages and salaries and control of employee turnover. The evaluation plan also included procedures for translating the performance into a numerical score. The 2d- and 3d-year plans included measurement standards for only the employee turnover criteria. The evaluation plan for the 4th contract year had no objective measurement standards for any of the evaluation criteria. During the 5th contract year, measurement standards were developed for about 85 percent of the technical work performance criteria, which constituted about 34 percent of the total performance score, although they were not included in the performance evaluation plan.

The evaluation plans for the 1st and 2d years included a number of overall performance criteria, such as (1) aircraft operationally ready rates, (2) aircraft not operationally ready--supply rates; i.e., the percentage of time aircraft cannot be flown because of delays in obtaining an item of supply, (3) aircraft not operationally ready--maintenance rates; i.e., the percentage of time aircraft cannot be flown because of delays in completing maintenance requirements, (4) aircraft flight hours, and (5) flight aborts. However, no objective standards for evaluating the contractor's performance on these criteria were included in the evaluation plan. These criteria were dropped from the evaluation plan during the 3d contract year and reestablished, in addition to others which were developed, for the 5th year, as discussed above.

The evaluation plans for the 1st and 2d contract years recognized the existence of some industry standards for evaluating performance but indicated that the standards would not be used to measure the contractor's performance. Both of these plans included the statement that, to the maximum extent practicable, the contractor would be evaluated on an objective basis, using quantitative analysis; for example, the number of tasks accomplished compared with the number scheduled or the number of work units performed compared with the schedule requirements. Subsequent plans did not contain such language.

We noted that the following statistics on overall contractor performance for each evaluation period were developed at MSC for use by the committee and were evaluated subjectively without benefit of objective measurement standards.

1. Average number of "squawks" (deficiencies noted by MSC inspectors) for each major or minor inspection.
2. Operationally ready rates.
3. Functional check flight rejection rates.
4. Abort rates.
5. Repeat squawks.
6. Not operationally ready--maintenance rates.
7. Not operationally ready--supply rates.
8. Total aircraft flight hours.

Our analysis of these statistics and the performance scores for each evaluation period showed that there was no correlation between them. When there was an improvement in the statistics on overall contractor performance, there was not a relatable corresponding improvement in the performance scores. Furthermore, the committee chairman told us that other available data on contractor output could not be related to the performance scores.

We discussed the basis for Dynalectron's performance scores with the chairman of the Award Fee Evaluation Committee. He told us that the scores were based on contractor performance in the three operating branches of MSC's Aircraft Operations Office. He said that the performance scores in these branches were weighted but that no percentages or formulas were used in establishing the weight for each of the branches. He said, however, that about 85 percent of all flying was by the astronauts and that 90 percent of the score was based on the contractor's performance in this area. According to the committee chairman, the key factors considered were the flight-abort rates, the overall aircraft condition, and Dynalectron's response to unusual situations.

FEASIBILITY OF ESTABLISHING AN
OBJECTIVE EVALUATION PLAN

NASA's CPAF contracting guide states that, as work progresses under a CPAF support services contract, an increasing number of work direction documents relating to the overall task assignments can be subjected to objective evaluation. The guide states also that, if work direction documents can be prepared, they should be used as the basic work unit to be evaluated. It states further that, at the end of each evaluation period, the completed work orders could be reviewed and the contractor's performance could be determined on the basis of how the contractor completed each work order.

We noted that, although work direction documents were being issued by MSC to request work under the contract, they were not being utilized by MSC evaluators in their evaluations of Dynalectron's performance.

When MSC determines that an aircraft needs service, Dynalectron and MSC representatives hold a preinspection planning meeting and agree on a time that the aircraft can be made available for maintenance and on the work to be performed. The work and the time it requires is listed on the Pre-inspection Planning Meeting form. Any additional work found necessary by the mechanics, supervisory personnel, or the pilot of the aircraft is recorded on an Aircraft Interflight Worksheet or a Maintenance Discrepancy Work Record. These two documents and the Pre-inspection Planning Meeting form are the basis for all work performed on an aircraft.

In meetings with officials at NASA Headquarters and at MSC concerning our draft report, we discussed the feasibility of using these work direction documents in establishing an objective evaluation plan. We were told that standards for output evaluation were not available and could not be readily established.

We subsequently consulted Air Force maintenance officials dealing with T-33 and T-38 training aircraft. We also performed additional review work at MSC. Air Force maintenance officials informed us that a significant degree

of guidance on aircraft maintenance operations is available from Air Force sources. We noted that MSC management and inspection personnel and the contractor were involved in the details of maintenance management. We believe that standards for work output measurement could be established to enable objective evaluation of both quality and timeliness of the contractor's work.

Evaluation of quality of contractor's work

NASA's aircraft maintenance operation at MSC is an adaptation of the basic Air Force installation aircraft maintenance operation.

MSC employs about 31 maintenance inspectors who, independently of any control by the contractor, examine every prescribed maintenance operation and establish that it has been completed. We were told that these maintenance inspectors were generally men who had a thorough knowledge of the various maintenance operations, gained through firsthand experience as aircraft mechanics and maintenance supervisors.

Each maintenance operation performed by the contractor is reviewed by these NASA inspectors. If the work is satisfactory, the inspector indicates his approval on the work direction document. If the work is unsatisfactory, however, no indication is recorded on the work direction document. No other record is maintained of the results of these inspections. In our opinion, a complete record of each MSC inspection should be maintained to provide a source of information that could be used to evaluate the quality of the contractor's work.

Evaluation of timeliness of contractor's work

Air Force time standards for T-33 and T-38 aircraft maintenance operations are available, and they could be adapted to the needs of MSC's local operation. We noted that three distinct categories of maintenance are performed on a repeated basis on T-33 and T-38 training aircraft at MSC; these are (1) maintenance performed in accordance with Air Force Periodic Inspection Work Cards, (2) maintenance performed in accordance with Air Force Time Compliance Technical Orders, and (3) corrective maintenance.

We reviewed MSC's aircraft utilization records for the 23 T-38 training aircraft on which maintenance work had been performed by the contractor during the 15-month period from June 1968 through August 1969. We noted that about 33 percent of the contractor's time was spent on maintenance prescribed by the Periodic Inspection Work Cards, about 14 percent was spent on maintenance prescribed by the Time Compliance Technical Orders, and the remaining 53 percent was spent on corrective maintenance, including some aircraft modification work.

Maintenance prescribed by the Periodic Inspection Work Cards is performed on each of the aircraft after every 400 flying hours. It consists of specific inspection and maintenance operations performed on the basis of a task-by-task listing on each of the work cards. The work cards prescribe a standard work time for tasks listed on the card as well as a total work time for each of the work cards. These time standards are prescribed by the Air Force as a guide in determining the work time normally needed to complete each of the 400-hour inspection and maintenance operations.

Maintenance based on the Time Compliance Technical Orders must be completed on each of the aircraft within a specified period or the aircraft must be restricted or withdrawn from service for safety reasons, until compliance with the technical order is accomplished. We noted that the technical orders prescribed (1) the detailed work phases to be accomplished and (2) the standard man-hours for completing the requirements specified by each of the technical orders.

The third category consists of corrective maintenance which is performed when a specific problem arises on an aircraft. After agreement between the contractor and MSC, the particular maintenance operation decided on is noted on the work direction document by reference to the number of the particular Air Force technical manual detailing the prescribed procedures for the completion of the work.

We noted that, at one Air Force installation at which T-38 aircraft were being maintained, local job standards based on local conditions had been established for many of

the corrective maintenance operations. We were told that various guidance data could be obtained from both field and Washington headquarters of the Air Force to assist in the establishment of local standards for maintenance operations.

We believe that, with MSC's experience in aircraft maintenance and with available Air Force time standards, MSC could establish objective standards for measuring the timeliness of the contractor's maintenance work.

CHAPTER 3

FEE DETERMINATION ACTIONS THAT

INCREASED CONTRACTOR'S FEES

During our review we noted several instances of deviations from established fee distribution guides and of unsupported adjustments which increased Dynalectron's fee. We believe that the deviations and unsupported adjustments resulted from the lack of objective standards for use in evaluating performance and that they illustrate the need to establish standards for measuring contractor performance.

DEVIATIONS FROM ESTABLISHED AWARD FEE DISTRIBUTION GUIDE

During the third quarter of the 1st contract year, the Award Fee Evaluation Committee recommended a deviation from the established award fee distribution guide which resulted in the payment of a higher fee to the contractor. The committee recommended that the fee for the third and fourth quarters be computed in accordance with the contract fee distribution guide that had been negotiated for the 2d contract year. We were unable to determine the reason for the use of the 2d year's fee distribution guide to compute the fee for the 1st year. The committee's use of this guide resulted in the computation of a higher fee than would have been computed under the award fee distribution guide negotiated for the 1st contract year.

After the committee's presentation to the Award Fee Evaluation Board concerning past evaluations and award fee earnings, the board accepted the committee's recommendation. The result was that Dynalectron received an additional award fee of about \$2,860.

We noted that, during the board meeting to consider recommendations concerning the third quarter of the 1st contract year, one board member requested the committee to recommend a special end-of-contract-year bonus. According to the minutes of the board meeting, the purpose of the bonus was to increase the contractor's overall fee earnings even though it was recognized that the contractor's overall performance had not been excellent.

The committee recommended a bonus award fee of \$14,226 for the 1st contract year. Records made available to us indicated that the bonus was determined in the following manner. Dynalectron's performance score for the total contract period was in the high-good range with an overall numerical average of 88.7. On the basis of the quarterly scores making up this average, Dynalectron was entitled to an award fee of about \$38,990, or about 65 percent of the available amount. It was decided, however, that Dynalectron should receive 88.7 percent of the award fee available for the total contract period, or about \$53,216. The board concurred in the committee's recommendation.

The official determination of the award fee for the fourth quarter stated that a review of performance for the entire 1st contract year revealed that certain factors which affected the contractor's performance were not completely within the control of the contractor. It concluded by stating that, in recognition of such factors and in consideration of overall performance, an additional fee of \$14,226 was awarded to the contractor. As examples of the problems that were beyond the contractor's control, it cited inadequate hangar space for aircraft maintenance, nonavailability of critical aircraft parts due to Department of Defense requirements, and the age of certain aircraft which made the contractor's task more difficult than would normally be expected. No specifics were given in support of these contentions.

To have received an award fee of \$53,216 under the established fee distribution guide, Dynalectron would have needed an average performance score of about 94.5 for the contract year. Therefore, we conclude that Dynalectron received an award fee for excellent performance when, in fact, its scores indicated that its performance was only high-good.

CHANGES IN RECOMMENDED SCORES NOT SUPPORTED BY FACTUAL INFORMATION

We found that the board on two occasions had increased and on one occasion had decreased the committee's recommended scores but that the contract files contained no factual information explaining the board's changes. The board changed the committee's recommended scores in three consecutive

evaluation periods from November 1, 1967, through July 31, 1968.

The score changes for the evaluation period November 1, 1967, through January 28, 1968, resulted in an increase of about \$1,480 in the award fee to Dynalectron. The board had raised the committee scores for three of the performance criteria: (1) schedule performance, (2) personnel, and (3) cost control. The result was an increase in the overall score from 89.7 to 90.6; but the contract files contained no explanation of the board's basis for the change. Similarly, score changes by the board in the other two periods were not supported by the presentation of factual information; however, these changes had no effect on the award fee recommended by the committee for these two periods. During discussions with us, MSC officials stated that, although it was difficult to fully document all facts considered in a decision, the reasons for committee and board actions should always be fully documented.

Our review of the performance evaluation records showed that the evaluators did not retain documentation supporting their presentations and recommendations to the committee, except for the operational indicators listed on page 8. The committee chairman told us that to develop a file of documents to support performance scores would be pointless because the board did not necessarily agree with the award fee suggested by the committee. One evaluator advised us that there was no requirement that he keep his evaluation documents and that he only maintained such information until the end of each reporting period. He did, however, retain records of the operational statistics which were developed each month. The Chief, Flight Research Projects Office, told us that he destroyed his evaluation notes after the committee meetings.

CHAPTER 4

CONCLUSIONS AND RECOMMENDATIONS

CONCLUSIONS

In our opinion, the performance evaluation plans for the aircraft maintenance contracts have not met the requirements of NASA's CPAF contracting guide. We believe that the fees paid to the contractor were not adequately justified because of the lack of standards for measurement of the performance criteria.

We believe also that the establishment of, and adherence to, appropriate performance standards against which to measure contractor performance would help to preclude

- contractor performance ratings that appear inconsistent with objective output indicators,
- evaluation plan deviations which result in the award of higher fees that are not related to higher levels of performance, and
- changes of recommended performance scores which are not supported by documented factual information attesting to the reasons for the changes.

We believe that more objective measurements could be made of the contractor's performance if steps were taken to (1) select performance evaluation criteria directly related to the work output expected from the contractor, (2) establish objective standards for measurement of contractor performance, and (3) establish a system to produce, gather, and report information on the contractor's actual versus its expected performance.

RECOMMENDATIONS TO THE NASA ADMINISTRATOR

We recommend that NASA examine into the requirements of the aircraft maintenance contract with a view to establishing a performance evaluation plan which will place greater emphasis on objective performance standards in terms

of output criteria and that it make use of available performance indicators such as those discussed above. In the event that NASA concludes that such standards cannot be developed, we believe that contracting for aircraft maintenance on a cost-plus-award-fee basis should be reconsidered.

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MSC officials with whom we discussed this matter expressed a willingness to explore the possibilities of work order evaluations based on output measurement standards. They noted, however, that such evaluations represent a significant change from the present evaluation plan and that the present staffing levels may not be adequate to implement changed evaluation procedures.

CHAPTER 5

SCOPE OF REVIEW

We reviewed the policies, practices, and procedures followed by the Manned Spacecraft Center, Houston, Texas, in evaluating the performance of its aircraft maintenance contractor. Our review was directed primarily toward determining whether MSC had established a performance evaluation plan as set forth by NASA's CPAF contracting guide and whether MSC's implementation of the performance evaluation plan provided reasonable assurance that the fee awards were commensurate with the contractor's demonstrated performance. Although our work was performed principally at MSC, we also held discussions with NASA Headquarters officials.