

## UPDATES: The Good, the Bad, and the Ugly

Written by Administrator

Wednesday, 18 August 2010 00:00

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From time to time we post a piece that updates readers on prior articles. This is one of those times.

### The Good

NASA received [some criticism](#) from GAO regarding its satellite programs.

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GAO reported that nine of 15 large-scale unmanned NASA programs it reviewed had “experienced significant cost and/or schedule growth from their project baselines.” In [another GAO report](#), eight DOD satellite programs were assessed, and the auditors were concerned about potential capability gaps stemming from misalignment of satellites, ground control systems, and user terminals.

We tackled a more in-depth look at one such program—the Advanced Extremely High Frequency (AEHF) defense communication satellite—[here](#). In that article, we opined as follows—

Like many high-tech developmental programs, the AEHF program has been the victim of Pentagon budget wars. While the program undoubtedly suffered from many of the pains associated with trying put a highly secure, classified payload into space, it also suffered from a lack of firm strategic leadership from the Pentagon. The fluctuations in the number of satellites and budgetary uncertainty clearly impacted the contractors at least as much (if not more) than the technical challenges.

While it might serve as a good example of out-of-control defense programs, it might also serve as a good example of the impacts of failed leadership.

So we're happy to report some [good news](#) on the AEHF front. On August 15, 2010, a United Launch Alliance Atlas 5 rocket successfully launched the first AEHF satellite into orbit. As [this article](#) at Aviation Week reported—

Following a four-min., 19-sec. burn of the Russian-built RD-180 booster engine and two burns of the Centaur's Pratt & Whitney Rocketdyne RL10 engine, the satellite was released at 7:58 a.m. as it flew over the Indian Ocean.

Over the next three months, AEHF-1's orbit will be circularized so that it flies about 22,300 mi. over the equator at 90 deg. West longitude for satellite checkout and calibration. It will then be relocated to an operational orbit, which will be determined based on needs at the time, officials said. AEHF-1 should be ready to be put into service in early 2011.

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The military says one AEHF spacecraft has more capacity than the entire five-member Milstar satellite constellation, with faster data rates to enhance tactical military communications by providing higher-quality maps, targeting data and live video transmissions.

In addition to secure, jam-resistant communications for multiple branches of the U.S. military, AEHF is the first protected satcom to include partner nations, Air Force Capt. Jonathan Pellowe says.

‘It’s a game-changing moment,’ Pellowe said during a webcast of the launch.

Congratulations to the United Launch Alliance team!

### More Good News—or Is It?

We [previously reported](#) on the competition for the Small Diameter Bomb Increment II (aka GBU-53/B) development contract in the context of DOD's return to the use of fixed-price development contracts. The Air Force was going to choose the winner from two competing teams: Raytheon and Lockheed Martin/Boeing. We said at the time—

What we are left with is the distinct impression that use of a fixed-price contract type on developmental programs is a mistake, one that will not lead to good financial results for the 'winning' contractor. And the Pentagon will have yet another program with 'cost growth' to explain to Congress.

Certainly the Raytheon team had to be considered the underdog, going up as it was against the team of the two largest defense contractors in the U.S. So Raytheon had to be elated to be [awarded](#) the \$451 million contract. As noted in the Defense Industry Daily article ([link above](#))—

Raytheon's GBU-53/B seeker features 3 modes of operation: millimeter-wave radar, uncooled imaging infrared, and semiactive laser. The millimeter wave radar will operate through any weather, and is used in weapons like the Hellfire Longbow missile to give them 'fire and forget' capability. Their uncooled imaging infrared (IIR) seeker uses high-resolution thermal scans to a similar end, and is better against some kinds of targets like humans. By combining these 2 fire and forget scan modes, the GBU-53 makes it much more difficult to use countermeasures, or decoys. By using an uncooled IIR seeker, the bomb lowers its cost and maintenance requirements. The 3rd guidance mode, semi-active laser, is standard for a wide range of missiles and rockets, and offers the best accuracy and assurance. Its flip side is problematic performance in heavy fog, sandstorms, etc.

So congratulations to Raytheon! (But be careful what you wish for....)

### The Bad

We have reported, several times, on the story of Public Warehousing Company KSC—now called Agility. We first reported the story [here](#), and subsequently followed the original story with an

#### [update](#)

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*\$8 billion*

worth of logistics support work from DOD, the company was indicted in late 2009 for “

conspiracy to defraud the United States, committing major fraud against the United States, making false statements, submitting false claims and wire fraud.”

Subsequently, in April, 2010, the Defense Logistics Agency (DLA) announced it was “replacing” Agility and awarding a \$2.2. billion follow-on contract to Dubai-based ANHAM FZCO.

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So it was interesting to learn via [published reports](#) that the DLA had “decided to extend Agility’s prime vendor contract for six months starting in September, after the current contract ends.” No details were given, so we can only speculate as to the cause(s) for the action. For whatever reason, the DLA seems to have trouble kicking-off its contract with the successor firm.

Why is this “bad” news? Well, it’s bad for Agility, who is still facing serious charges. And it’s bad for ANHAM FZCO, who is losing out on some quite a bit of revenue. And it’s bad for DLA and the Army, who seem to have trouble getting their act together. We’re guessing, though, that it’s good news for the service men and women who depend on Agility and other logistics support contractors to put food on their tables at chow time.

### The Ugly



Early in 2010 we [reported](#) on complex and rather arcane allegations regarding Boeing's entitlement to at least \$271 million in payments related to its Evolved Expendable Launch Vehicle (EELV) program. As we opined at the time—

So as with many government contract cost accounting matters, the truth is both complex and hard to fathom. Will Boeing have to concede \$271 million in payments to which it believes it is contractually entitled?

We'll look forward to the final DCAA audit report(s), and hope that they ignore any political pressure and focus solely on the facts, which (apparently) even the DOD IG seems to have gotten wrong.

This is a great example of how the facts matter, and how easy it is to allege a problem, and how hard it is to refute an allegation. Clearly, Boeing's entitlement to the \$271 million depends on its 'Lot Accounting' practices, why the PM&HS costs were not fully absorbed by prior launch contracts, and how Boeing intended to amortize its production costs under future programs (and whether it would be permitted to do so under FAR and CAS parameters).

Finally, nearly eight months later, DCAA's position was [announced](#) to the media via a nearly unprecedented e-mail statement from Director Fitzgerald. Director Fitzgerald called on the Defense Contract Management Agency (DCMA) to notify the United Launch Alliance team (of which Boeing is one of two team members, along with Lockheed Martin) that the costs are in non-compliance "with federal accounting standards" and are "unallowable." According to the Bloomberg article ([link above](#))—

Debra Bingham, a spokeswoman for the Defense Contract Management Agency, which is reviewing the audit recommendations, said that the agency's Boeing manager in Huntington Beach, California, plans to render a final decision in November.

The official will review the audit agency's analysis and recommendation, as well

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as Boeing's rebuttal, she said.

We will be surprised if this issue isn't litigated.