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MEMORANDUM FOR OFFICE OF THE CHIEF OF NAVAL RESEARCH  
(ONR 011G)  
CHIEF OF NAVAL OPERATIONS (N81)

Subj: ACQUIRING SERVICES THROUGH THE CENTER FOR NAVAL ANALYSES (AUDIT REPORT N2009-0021)

Ref: (a) NAVAUDSVVC memo N2007-NAA000-0016.000, dated 24 Sep 07  
(b) SECNAV Instruction 7510.7F, “Department of the Navy Internal Audit”

1. This report provides results of the subject audit announced in reference (a). Section A of this report provides our finding and recommendations, summarized management responses, and our comments on the responses. Section B provides the status of the recommendations. The full text of management responses is included in the Appendices.

2. Actions taken by the Chief of Naval Operations meet the intent of Recommendation 2, and the recommendation is closed. Actions planned by the Office of the Chief of Naval Research meet the intent of Recommendations 1 and 5, and actions planned by the Chief of Naval Operations meet the intent of Recommendations 3 and 4. These recommendations are considered open pending completion of the planned corrective actions, and are subject to monitoring in accordance with reference (b). Management should provide a written status report on the recommendations and associated funds available for other use within 30 days after target completion dates. Please provide all correspondence to the Assistant Auditor General for Research, Development, Acquisition, and Logistics Audits, by e-mail at [redacted], with a copy to the Director, Policy and Oversight, by e-mail at [redacted]. Please submit correspondence in electronic format (Microsoft Word or Adobe Acrobat file), and ensure that it is on letterhead and includes a scanned signature.

3. Any requests for this report under the Freedom of Information Act must be approved by the Auditor General of the Navy as required by reference (b). This audit report is also subject to followup in accordance with reference (b).
4. We appreciate the cooperation and courtesies extended to our auditors.

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Executive Summary

Overview

The Department of Defense (DoD) has 10 Federally Funded Research and Development Centers (FFRDCs). The Center for Naval Analyses (CNA), based in Alexandria, VA, is a nonprofit organization that provides research and development analysis to Department of Navy (DON) senior leaders. It is the only FFRDC sponsored by DON. According to the Director, Assessment Division’s (OPNAV N81) “Comprehensive Review of the FFRDC,” dated 28 Jun 2005, CNA is a Government-sponsored think tank that has provided the Navy and Marine Corps with vital, independent full-service research analysis since its creation in 1942. The Assistant Secretary of the Navy (Research, Development, and Acquisition) (ASN (RD&A)) acts as the Secretary of the Navy’s representative in the exercise of his FFRDC management responsibilities. The FFRDC Management Plan lists ASN (RD&A) as the Sponsor of the CNA. OPNAV (N81) is the Contracting Officer Technical Representative (COTR) and is responsible for all work performed by CNA. The Office of the Chief of Naval Research (ONR) is the contracting office responsible for award and overall administration of the CNA contract.

ONR issued a cost-plus-award-fee 5-year contract with cost plus-fixed fee (CPFF) task orders issued to the CNA Corporation on 23 September 2005 for $466 million. CNA has functioned as an independent entity contracting directly with the Navy since October 1990. In 1993, the CNA Corporation (CNAC) restructured into two divisions: CNA, the FFRDC sponsored by the DON; and the Institute for Public Research, a new operating unit.

The FFRDC contract includes both core and above-core funding.

- Core funding is funds received directly from the Navy’s Research, Development, Test and Evaluation appropriation line, Program Element 0605154N. The contract defines core work as work that appropriately integrates CNA’s mission and purpose with characteristics of an FFRDC strategic relationship and CNA’s core competencies. For FY 2006, the Navy budgeted $47.3 million for CNA core research work.

- Above-core work is sponsored via command customer funds and includes DON, DoD customers, and above-ceiling work. Funding for above-core work is approved by the COTR, OPNAV (N81). During FY 2006, CNA received $45.8 million for above-core research work.
The audit covered task orders from FYs 2005 through 2007. We conducted the audit work between 30 July 2007 and 9 January 2009.

**Reason for Audit**

The objectives of this audit were to verify that (1) FFRDC funds were effectively and efficiency managed in accordance with laws and regulations, and (2) internal controls were effective in ensuring that DON received the services for which it paid.

DON Program Budgeting and Funding was identified as an area of concern in the FY 2007 DON Risk Assessment. Senior DON management agreed to this audit. The Deputy Assistant Secretary of the Navy, (Management and Budget), Office of the Assistant Secretary of the Navy, Research, Development and Acquisition agreed to this audit.

**Noteworthy Accomplishments**

As part of the audit, we reviewed the ethics program at ONR. We found that ONR has an effective ethics program in place in terms of its systems, processes, and procedures to reasonably ensure compliance with DoD 5500.7-R, “the Joint Ethics Regulation,” and Executive Order 12674, “Principles of Ethical Conduct for Government Officers and Employees.”

**Conclusions**

Management and oversight of FFRDC funds by the Office of the Director, Assessment Division, OPNAV N81 and ONR require improvement. Specifically, OPNAV (N81) expenditure of FFRDC funds for CNA-initiated projects, exercise support, and scientific analysts programs did not ensure that some funds were expended in accordance with the DoD FFRDC Management Plan, Federal Acquisition Regulation (FAR) subpart 35.017-4, and DoD Financial Management Regulation (FMR) 7000.14-R, Chapter 8. In addition, ONR needs to establish procedures for performing obligation validation reviews on Research, Development, Test, and Evaluation, Navy (RDT&E, N) funds to reconcile outstanding obligations and to better manage core funds.

**Communication with Management**

Throughout the audit, we kept ASN (RD&A), OPNAV (N81), and ONR personnel informed of the conditions noted. Specifically, we held briefings with the ONR Contracting Officer and the COTR, OPNAV (N81) on 14 May 2008 and 10 September 2008; with the Acting Assistant Secretary of the Navy (RD&A) on 18 July
EXECUTIVE SUMMARY

2008; with the Contracting Officer Representative on 5 September 2008; and with the ONR Acquisition Manager and Comptroller on 10 September 2008. Discussions were held with the ONR Contracting Officer on 17 February 2009 and with OPNAV (N81) on 18 February 2009.

Federal Managers’ Financial Integrity Act

The Federal Managers’ Financial Integrity Act (FMFIA) of 1982, as codified in Title 31, United States Code, requires each Federal Agency head to certify annually the effectiveness of the agency’s internal and accounting system controls. In our opinion, the conditions noted in this report do not warrant reporting in the Auditor General’s annual FMFIA memorandum identifying management control weaknesses to the Secretary of the Navy.

Corrective Actions

We recommend that ONR:

- Document standard operating procedures for accounting for above-core appropriated funding for task orders on expiring FFRDC contracts and contract completion and contract closeout for above core task orders. Specifically, document procedures that track and identify funding that could be deobligated and returned to the customers.

Document triannual obligation validation reviews on RDT&E, N funds of the current FFRDC contract by completing a formal signed confirmation statement attesting to the accomplishment of the review and accuracy and completeness of the recorded amounts, as required by DoD Financial Management Regulation Volume 3, Chapter 8.

We recommend that Chief of Naval Operations (N81):

- Amend the sponsoring agreement of the current 5-year FFRDC contract to add authorization for funding for the Exercise Support program;

- Document in the next comprehensive review that OPNAV (N81) completed a comparison of cost between in-house Naval personnel, not-for-profit, and for-profit alternatives, to support the continued need and cost effectiveness of the scientific analyst program; and

- Renegotiate the next FFRDC contract to replace the requirement that provides CNA with 6 percent of the annual CNA budgetary line, and replace it with a reduced independent review fee for all CNA independent studies, with the COTR
having oversight and approval authority over CNA studies. Report back to the Naval Audit Service the savings resulting from this renegotiation.

Actions taken and planned by ONR and the Office of the Chief of Naval Operations meet the intent of the recommendations.
Finding: Management and Oversight of FFRDC Funds

Synopsis

The Office of the Director, Assessment Division (OPNAV (N81)) did not provide sufficient management and oversight of several components of the contract with Center for Naval Analyses, a Federally Funded Research and Development Center (FFRDC). Specifically, OPNAV (N81) expenditure of FFRDC funds for Center for Naval Analysis (CNA)-initiated projects, exercise support, and scientific analysts programs did not ensure that funds were expended in accordance with the Department of Defense (DoD) FFRDC Management Plan, Federal Acquisition Regulation (FAR) subpart 35.017-4, and DoD Financial Management Regulation (FMR) 7000.14-R, Chapter 8. The Office of the Chief of Naval Research (ONR) also needs to establish procedures for performing obligation validation reviews on Research, Development, Test, and Evaluation, Navy (RDT&E, N) funds for the current FFRDC contract to reconcile outstanding obligations, and to effectively manage core and above-core funds.

The lack of sufficient oversight occurred for several reasons. Specifically, OPNAV (N81):

- Did not exercise approval authority over funds expended for CNA-initiated studies.
- Did not include Exercise Support as a contractual line item in the current FFRDC contract, as it had for all other contractual line items in the contract.
- Did not document in the comprehensive review that OPNAV (N81) completed a cost comparison between in-house Naval personnel, not-for profit, and for-profit alternatives to support the continued need for the scientific analyst program.
- ONR did not periodically perform required obligation validation reviews on Research, Development, Test and Evaluation, Navy (RDT&E) funds for the FFRDC contract to determine whether obligations remaining on the official financial records were valid.
ONR carried above-core funding from an expiring FFRDC contract to the new FFRDC contract consistently for the past three FFRDC contracts, which made it difficult to determine whether remaining customer above-core funding could be deobligated and returned to the customer for other requirements.

The Navy should renegotiate the next FFRDC contract to replace the requirement that provides CNA with 6 percent of the annual CNA budgetary line, and replace it with a reduced independent review fee for all CNA independent studies. For example, the Institute for Defense Analyses (IDA), an FFRDC similar in size and budget to CNA, established an independent review fee equal to 3 percent of the annual budget line. In conjunction with this fee, the Contracting Officer’s Technical Representative (COTR) should also establish oversight and approval authority over CNA initiated studies.

**Discussion of Details**

**Background**

As an FFRDC, CNA enjoys a special relationship with DON that allows CNA access beyond that which is common to the normal contractual relationship. CNA’s mission is to provide independent, authoritative research, analysis, and technical support that focus upon the major present and future issues affecting the Navy, Marine Corps, other DoD organizations, and the Coast Guard.

CNA has five core competencies centered on analysis of defense, national security, and maritime issues: (1) Operations; (2) System Requirements and Acquisition; (3) Resources; (4) Program Planning; and (5) Strategies and Doctrine.

The contract defines core work as work that appropriately integrates CNA’s mission and purpose with characteristics of an FFRDC strategic relationship and CNA’s core competencies. This work is included in the Navy’s appropriation line, while above-core work is work that is directly funded by other DoD and above ceiling customers. For example, we reviewed an above-core project funded by the U.S. Coast Guard titled, “Business Process Reengineering” for Coast Guard Civil Engineering Services.

**Above Core Funding**

Above-core funding is sponsored via command customer funds and includes DON, DoD, and above-ceiling customers. ONR receives this funding from customers on funding documents, such as Department of Defense (DD) Form 448, Military Interdepartmental Purchase Requests (MIPR), and Navy Comptroller (NAVCOMPT) Form 2276, Order for Work and Service/Direct Citation for requested services. During Fiscal Years (FYs) 2006 and 2007, ONR received above-core funding of $45.8 million and $43.9 million,
respectively. On 23 September 2005 (for the FY 2006 contract), ONR carried forward approximately $3.5 million of above-core funding to the current FFRDC contract.

**Pertinent Guidance**

The Office of the Under Secretary of Defense, Acquisition, Technology, and Logistics (OSD (ATL)) developed and issued the DoD FFRDC Management Plan on 15 May 2003. This plan established policies calling for strategic relationships between sponsors and users. The guidance states that FFRDC contracts are typically entered into for a 5-year period, with an option for an additional period not to exceed 5 years. In addition, the sponsor must approve all FFRDC work.

DoD Financial Management Regulation 7000.14-R, Volume 3, Chapter 8, provides that fund holders with assistance from supporting accounting offices, should review commitment and obligation transactions for timeliness, accuracy, and completeness during each of the 4-month periods (triannually) ending on 31 January, 31 May, and 30 September of each fiscal year. The fund holders are required to complete the triannual reviews to ensure unliquidated obligations are recorded, and are in the proper stage of accounting.

Federal Acquisition Regulation Subpart 35.017, Research and Development Contracting, dated 14 June 2007, set forth Federal policy regarding the establishment, use, review, and termination of FFRDCs and related sponsoring agreements. To facilitate a long-term relationship between the Government and an FFRDC, a written agreement of sponsorship between the Government and the FFRDC should be prepared. This sponsoring agreement establishes the FFRDC mission and ensures a periodic reevaluation of the FFRDC.

**Audit Results**

**Management and Oversight of FFRDC funds**

The Office of the Director, Assessment Division, OPNAV N81, and ONR need to improve management and oversight of FFRDC funds. Specifically, OPNAV (N81) expenditure of FFRDC funds for CNA-initiated projects, exercise support, and scientific analysis programs did not ensure that funds were expended in accordance with the DoD FFRDC Management Plan, Federal Acquisition Regulation (FAR) subpart 35.017, and DoD Financial Management Regulation (FMR) 7000.14-R, Chapter 8. In addition, ONR needs to establish procedures for performing obligation validation reviews on Research, Development, Test, and Evaluation, Navy (RDT&E, N) funds to reconcile outstanding obligations and to better manage core funds.
CNA-Initiated Studies

The Navy provided CNA funding authority of 6 percent of CNA’s annual budget line to cover the cost or projects initiated by CNA in order to maintain its competency and objectivity. These projects were not subject to COTR approval, and the COTR did not provide sufficient oversight or approval authority over the expenditure of these funds. For example, the Navy expended $3.1 million for FY 2006 and $3.2 million for FY 2007. However, based on the approved budget amounts for both years, the Navy exceeded the 6-percent limit of the approved budget line for providing CNA funding by $300,000\(^1\) for FY 2006 and $400,000 for FY 2007. The FFRDC oversight managers, OSD (ATL) stated that there are two other FFRDCs similar to CNA that perform studies and analyses within DoD (Institute for Defense Analyses (IDA) and Research and Development (RAND)). The FFRDC manager stated that these two FFRDCs established an independent review fee of 3 percent for IDA\(^2\) and 6.5 percent for RAND\(^3\) and that the fees are subject to COTR oversight and approval. Like CNA, IDA receives appropriated funding, while RAND’s fee is higher because RAND does not receive appropriated funding and is operated similar to a working capital fund. In our judgment, the Navy could reduce costs by implementing an independent review fee, similar to that of IDA (which is an FFRDC similar in size and budget as CNA) of 3 percent of the annual budgetary line. Naval Audit Service recommends N81 renegotiate the next FFRDC contract to replace the requirement that provides CNA with 6 percent of the annual CNA budgetary line, and replace it with a reduced independent review fee for all CNA independent studies, with the COTR having oversight and approval authority over CNA studies. The current CNA FFRDC contract expires on 30 September 2010.

Above-Core Funding Carried forward

ONR carries forward unexpended above-core funding from one expiring FFRDC contract to a new FFRDC contract. Although legal, this process does not always ensure that procedures for accounting for above-core appropriated funding for task orders on expiring FFRDC contracts are followed. Specifically, procedures that track and identify funding that could be deobligated and returned to the customers are not sufficient. Specifically, ONR receives above-core funding from customers on DD Form 448, MIPR, and NAVCOMPT Form 2276, “Order for Work and Service/ Direct Citation” for requested services. ONR transfers any unused funding remaining during the final year of the FFRDC contract to the new FFRDC contract. Specifically, when ONR awarded the current contract, ONR reviewed the above-core work for any task orders on the expiring FFRDC contract (N00014-00-D-0700) with a period of performance beyond December 2005. The intent was to transfer all the work remaining on the prior contract into the new contract to eliminate the potential for confusion between awards and reduce the

\(^{1}\) The approved core budget for FY 2006 was $46.8 million and for FY 2007 it was $47.4 million.

\(^{2}\) IDA’s budget averages approximately $100 million per year with 300 staff years of technical effort (STEs).

\(^{3}\) RAND’s budget was approximately $35.4 for Fiscal Year 2007 with no appropriated funding.
administrative burden of managing task orders on two different contracts. As a result, ONR transferred all above-core task orders with a period of performance ending beyond December 2005 to the current contract (N00014-05-D-0500). This process allowed ONR to transfer approximately $3.5 million of customer Operation and Maintenance (O&M), Navy funding (various types of 1 year funding from other customers) between 26 and 30 September 2005 to the new FFRDC contract prior to the funds expiring for obligation purposes.

**Exercise Support**

CNA manages many programs in which product areas are similar to those included in the contract’s sponsoring agreement. For example, the Marine Corps; Field; Quick Response; Scientific Analyst; General Concept Development; Project Development; and CNA Initiated Programs are similar. Each program is managed by a Product Area Manager (PAM) and funds are expended as approved in the CNA annual plan by the COTR, OPNAV (N81). However, the Navy expended $1.9 million and $1.5 million, respectively, in FYs 2006 and 2007, for Navy field exercise studies. These expenditures were not explicitly identified in the contract’s sponsoring agreement. However, our discussions with OPNAV (N81) and ONR contracting personnel about why they expended these funds revealed that the expenditures were considered to be implicitly part of the field program. The sponsoring agreement did not explicitly identify field exercise studies as part of field program. The field program consists of CNA analysts assigned to support various Navy, Marine Corps, and Joint Commanders. As a result, the Navy is paying for a deliverable from CNA, which is not explicitly identified as approved in the FFRDC sponsoring agreement but is being paid by the Navy as an implicit part of a valid deliverable (the Navy Field Program).

**Scientific Analyst Program**

OPNAV (N81) established its Scientific Analyst Program in approximately 1993 because of the need for CNA to provide services to the Chief of Naval Operations (CNO) staff. These analysts conduct short-term analyses in response to requests from senior DON leaders. Scientific analysts alert the senior leadership to relevant analytical work CNA may be doing and provide information to CNA on current activities and problems. Scientific analysts help to formulate larger analytical problems so they can be addressed in more formal study efforts. The scientific analysts also provide the required expertise in advanced technology and systems analysis for warfare integration and divisions, strategic studies for integrated systems, and resource analysis. However, scientific analysts do not complete formal research studies. Currently, OPNAV (N81) staffs the program with 31 part-time analysts (usually 1 day a week) located at CNA headquarters; and 3 fulltime analysts assigned to OPNAV (N81), the Naval Criminal Investigative Service (NCIS), and the Quadrennial Defense Review (QDR) classified program.
When the Scientific Analyst Program was established, OPNAV (N81) did not develop sufficient justification for it to comply with the requirements of FAR subpart 35.017. Specifically, OPNAV (N81) did not develop documentation to support the requirement that they considered alternative sources as the best value for the Navy to continue funding the scientific analyst program.

The DoD FFRDC Management Plan, and FAR subpart 35.017-4 (c) (2), require an examination of alternative sources to meet DoD technical requirements. Specifically, this requires the FFRDC to provide a detailed examination of the sponsor’s special technical needs and mission requirements that are being performed by the FFRDC (the Scientific Analyst Program) to determine whether, and at what level, they should continue to exist. In addition, N81 should explain why the capabilities cannot be provided as effectively by in-house personnel, for-profit or not-for-profit contractors, university-affiliated organizations, or another existing FFRDC. The FFRDC should include statements on the alternatives to the FFRDC that OPNAV (N81) considered and the rationale for not selecting them.

Our review of the Navy’s comprehensive review completed on 28 June 2005 determined that the Navy did not identify any alternative sources to the use of scientific analysts for providing assistance to the CNO staff. We conducted interviews with 12 of the 34 scientific analysts (35 percent) to determine their duties and responsibilities. We determined through discussions that many of these analysts provide experience and expertise in various areas of Navy management to the CNO on an as-needed basis. However, neither the analysts nor OPNAV (N81) kept detailed records of the work performed by these analysts. Therefore, neither we nor OPNAV (N81) had the necessary information to assess the value added by these analysts for the costs incurred. As a result, during FYs 2006 and 2007, the Navy expended $3.4 million and $3.7 million, respectively, to support this program without fully justifying consideration of alternative sources to continue funding the program.

**Completed Research Studies**

We reviewed 24 completed CNA studies\(^4\) from 12 product areas in FY 2006 to determine whether the studies provided value to the Navy and whether the Navy or Marine Corps management implemented these studies. We requested responses from the PAMs on three separate occasions. Based on interviews with the PAMs, our review determined that of the 24 studies reviewed, the Navy or Marine Corps implemented research results from at least 7 studies; the Navy did not implement results from 6 studies; and we did not receive responses from the PAMs for 11 studies to assess impact. As for whether value was provided by the research studies, we determined through inquiry with the PAMs that at least 12 studies provided some value to the Navy or Marine Corps, and one PAM stated that the research study did not provide value to the Navy. For the remaining

\(^4\) We selected 24 completed studies from a universe of 386 completed in FY 2006.
11 studies, we received no response from the PAMs regarding value provided to the Navy or Marine Corps for the research study. The PAMs stated that many of the studies were not implemented because they were either too costly, or the study confirmed that the current processes used were already working and there was no need to implement new study results.

**Triannual Obligation Validation Reviews**

ONR personnel obligate funds when placing task orders against the existing FFRDC contract. Current DoD policy requires that fund holders, with assistance from supporting accounting offices, review commitment and obligation transactions for timeliness, accuracy, and completeness during each of the 4-month periods ending on 31 January, 31 May, and 30 September of each fiscal year. The requirement for reviews of commitments and obligations applies not only to direct appropriations, but to all appropriations and funds of all DoD components, including reimbursable transactions and the Department’s revolving and trust funds. Our review of the 3 March 2008 Standard Accounting Reporting System (STARS) query report revealed that ONR did not document completed obligation validation reviews in accordance with DoD Financial Management Regulation Volume 3, Chapter 8, paragraph 080405. Specifically, ONR did not complete a formal signed confirmation statement attesting to the accomplishment of the review and the accuracy and completeness of the recorded amounts in its official accounting records. This signed confirmation is required within 21 days following January 31, May 31, and September 30, of each fiscal year.

**Recommendations and Corrective Actions**

Our recommendations, summarized management responses, and our comments on the responses are below. The complete text of management responses is in the Appendices.

We recommend that ONR:

**Recommendation 1.** Document standard operating procedures for accounting for above-core appropriated funding for task orders on expiring FFRDC contracts and contract completion and contract closeout for above core task orders. Specifically, document procedures that track and identify funding that could be deobligated and returned to the customers.

**ONR response to Recommendation 1.** Concur. ONR completed a draft of the standard operating procedure for accounting for above-core appropriated funding for task orders on expiring FFRDC contracts and contract completion and closeout for above-core task orders. The standard operating procedure includes procedures to track and identify funding that can be deobligated and returned to customers.
Naval Audit Service comment on response to Recommendation 1. Management addressed the issue raised in the audit results and the proposed action should correct the problem. Recommendation 1 is considered open until action is completed by 31 May 2009.

We recommend that OPNAV (N81):

Recommendation 2. Amend the sponsoring agreement of the current 5-year FFRDC contract to add authorization for funding for the Exercise Support Program.


Naval Audit Service comment on response to Recommendation 2. Management addressed the issue raised in the audit results and the proposed action should correct the problem. N81 submitted a definition of exercise support for contract modification on 6 January 2009. Recommendation 2 is considered closed with a completed date of 6 January 2009.

Recommendation 3. Document in the next comprehensive review scheduled to be completed in June 2010 that OPNAV (N81) completed a comparison of cost between in-house Naval personnel, not-for-profit and for-profit alternatives to support the continued need and cost effectiveness of the scientific analyst program.

OPNAV (N81) response to Recommendation 3. Concur. N81 stated in an email following its original management response to this recommendation that, with the completion of the next comprehensive review in June 2010, they will document a comparison of costs between in-house Naval personnel, not-for-profit, and for-profit alternatives, for the scientific analyst program. This recommendation is considered open. The estimated completion date is 30 June 2010.

Naval Audit Service comment on response to Recommendation 3. Management addressed the issue raised in the audit results and the proposed action should correct the problem. This recommendation is considered open. The estimated completion date is 30 June 2010. Because that is more than 6 months in the future, we have established an interim target date of 31 July 2009, and request that N81 provide us with a status report on the corrective action at that time.

Recommendation 4. Renegotiate the next FFRDC contract to replace the requirement that provides CNA with 6 percent of the annual CNA budgetary line, and replace it with a reduced independent review fee for all CNA independent studies, with the COTR having oversight and approval authority over CNA studies. Report back to the Naval Audit Service the savings resulting from this renegotiation.
OPNAV (N81) response to Recommendation 4.  Concur.  N81 is requesting a FY 2009 contract modification to ensure that the policy permitting 6 percent of the annual budgetary line for CNA-initiated projects is subject to the adjusted program element during the research year.  Also, all CNA initiated projects will be subject to COTR approval.  The estimated completion date is 30 June 2010.

Naval Audit Service comment on response to Recommendation 4.  Management concurred with the recommendation to reduce the fee, and stated they will address the CNA initiated fees as well as any cost savings in the June 2010 Comprehensive Review, and that any savings from decreasing the fee will be identified as a cost savings to the Navy.  We realize that N81 will need to request a FY 2009 contract modification before they can settle on the final amount of the fee, but their response indicates their agreement to negotiate a reduced fee.  Also, all CNA-initiated projects will be subject to COTR approval.  We consider this recommendation to be open with a final target completion date of 30 June 2010.  Because that is more than 6 months in the future, we have established an interim target date of 31 July 2009, and request that N81 provide us with a status report on the corrective action at that time.

We recommend that ONR:

Recommendation 5.  Document triannual obligation validation reviews on RDT&E, N funds of the current FFRDC contract by completing a formal signed confirmation statement attesting to the accomplishment of the review and accuracy and completeness of the recorded amounts, as required by DoD Financial Management Regulation Volume 3, Chapter 8.

ONR response to Recommendation 5.  Concur.  ONR’s comptroller will document triannual reviews and include documentation in certifications starting with the 31 May 2009 triannual review.

Naval Audit Service comment on response to Recommendation 5.  Management addressed the issue raised in the audit results and the proposed action should correct the problem.  The recommendation is considered open until a certified obligation validation review is completed 21 days after 31 May 2009 and a copy forwarded to Naval Audit Service.  The estimated completion date is 21 June 2009.
## Section B: Status of Recommendations and Funds Potentially Available for Other Use

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<th>Appropriation</th>
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</thead>
<tbody>
<tr>
<td>1</td>
<td>1</td>
<td>11</td>
<td>Document standard operating procedures for accounting for above-core appropriated funding for task orders on expiring FFRDC contracts and contract completion and contract closeout for above core task orders. Specifically, document procedures that track and identify funding that could be deobligated and returned to the customers.</td>
<td>O</td>
<td>Chief of Naval Research</td>
<td>5/31/09</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1</td>
<td>2</td>
<td>12</td>
<td>Amend the sponsoring agreement of the current 5-year FFRDC contract to add authorization for funding for the Exercise Support Program.</td>
<td>C</td>
<td>CNO (N81)</td>
<td>1/6/09</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1</td>
<td>3</td>
<td>12</td>
<td>Document in the next comprehensive review scheduled to be completed in June 2010 that OPNAV (N81) completed a comparison of cost between in-house Naval personnel, not-for-profit and for-profit alternatives to support the continued need and cost effectiveness of the scientific analyst program.</td>
<td>O</td>
<td>CNO (N81)</td>
<td>7/31/09</td>
<td></td>
<td></td>
<td></td>
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</tr>
</tbody>
</table>

5 / + = Indicates repeat finding  
6 / O = Recommendation is open with agreed-to corrective actions; C = Recommendation is closed with all action completed; U = Recommendation is undecided with resolution efforts in progress  
7 / A = One-time potential funds put to better use; B = Recurring potential funds put to better use for up to 6 years; C = Indeterminable/immeasurable  
8 / = Includes appropriation (and subhead if known)
<table>
<thead>
<tr>
<th>Finding</th>
<th>Rec. No.</th>
<th>Page No.</th>
<th>Subject</th>
<th>Status</th>
<th>Action Command</th>
<th>Target Completion Date</th>
<th>Category</th>
<th>Claimed Amount</th>
<th>Agreed To</th>
<th>Not Agreed To</th>
<th>Appropriation</th>
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</thead>
<tbody>
<tr>
<td>1</td>
<td>4</td>
<td>12</td>
<td>Renegotiate the next FFRDC contract to replace the requirement that provides CNA with 6 percent of the annual CNA budgetary line, and replace it with a reduced independent review fee for all CNA independent studies, with the COTR having oversight and approval authority over CNA studies. Report back to the Naval Audit Service the savings resulting from this renegotiation.</td>
<td>O</td>
<td>CNO (N81)</td>
<td>7/31/09</td>
<td>9</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1</td>
<td>5</td>
<td>13</td>
<td>Document triannual obligation validation reviews on RDT&amp;E, N funds of the current FFRDC contract by completing a formal signed confirmation statement attesting to the accomplishment of the review and accuracy and completeness of the recorded amounts, as required by DoD Financial Management Regulation Volume 3, Chapter 8.</td>
<td>O</td>
<td>Chief of Naval Research</td>
<td>6/21/09</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

9 We are not claiming specific savings due to the uncertainty that there will be any funds potentially available for other use. However, CNO has agreed to report back to us any savings they may realize based on a change to the fees. If savings are realized, we will claim the amount in the semiannual report to Congress.
Responsibility for the Government’s overall management of a Federally Funded Research and Development Center (FFRDC) resides with the primary sponsor. The Director, Assessment Division, Office of the Chief of Naval Operations (N81) has been delegated the role of Contracting Officer’s Technical Representative (COTR) by N8, and is directly responsible for management and oversight of all work performed by the FFRDC and the associated funding. The COTR reviews all core and above-core projects to ensure that the work is within the purpose, mission, and scope of the FFRDC. In addition, the COTR ensures that Center for Naval Analyses’ (CNA’s) work cannot be performed as effectively by in-house Navy personnel or a non-FFRDC alternative source and is not an inherently Government function, or duplication. Other major COTR duties include monitoring the level of work performed to ensure compliance with annual monetary and Staff years of Technical Effort ceilings established by the Office of the Secretary of Defense Acquisition, Technology and Logistics (AT&L). The COTR serves as the Product Area Manager for above-core projects, in addition to Navy Scientific Analyst and for Quick Response programs. The COTR is also responsible for coordinating funding of the contract between the contracting office, sponsors, and financial personnel. As such, the COTR carefully reviews all proposed projects for their appropriateness prior to authorizing work to begin.

The Commanding General, Marine Corps Combat Development Command (CG MCCDC) serves as the Marine Corps representative in all matters relating to CNA. The CG MCCDC functions as the product area manager for all Marine Corps-initiated work and funding associated with the Marine Corps Program.

The Office of Naval Research (ONR) has contractual and fiscal oversight responsibilities regarding CNA. The agency’s designated contracting officer negotiates all contractual actions, and obligates all funds provided by CNA’s primary sponsor and other major users of the FFRDC. In accordance with the Department of Defense FFRDC Management Plan guidelines, the contracting officer also negotiates indirect cost rates and coordinates the routine and extraordinary audit needs with the Defense Contract Audit Agency. ONR exercises their fiscal oversight through receipt and management of CNA’s annual core funding in Navy’s Research, Development, Test and Evaluation appropriation, Program Element 0605154N. Responsibilities include apportionment of funds for contractual requirements and a reserve, or set-aside, to satisfy all distributed and undistributed reductions to the FFRDC funding line in the Department of Navy budget.
Exhibit B: Scope and Methodology

Scope

We conducted the audit between 30 July 2007 and 13 January 2009. The audit covered financial transactions from Fiscal Years (FYs) 2005 through 2007. We focused on verifying the support used by the Chief of Naval Operations Office of the Director, Assessments Division (OPNAV) (N81) and Office of the Chief of Naval Research (ONR) in establishing core funding distribution rates, and corresponding deliverables on the Center for Naval Analyses’ (CNA’s) initiated exercise support, scientific analysts, and field programs. In addition, we compared the contractual requirements (N00014-05-D-0500) with the elements of the Department of Defense (DoD) Federally Funded Research and Development Center (FFRDC) Management Plan. We visited and contacted the following activities: the Center for Naval Analyses; Office of Naval Research; Director of Assessments Division (N81); Marine Corps Combat Development Command; U.S. Fleet Forces Command; Under Secretary of Defense (Acquisition, Technology and Logistics); and selected Product Area Managers. We held discussions with both selected field and scientific analysts. We also discussed the process of developing independent review fees with Contracting Officer Representatives for the Institute for Defense Analyses and the Research and Development (RAND) National Defense Research Institute FFRDCs.

Methodology

We obtained and analyzed the DoD FFRDC Management Plan, Federal Acquisition Regulation Subpart 35.017, Department of the Navy sponsoring agreement with CNA pertaining to contract number N00014-05-D-0500. We obtained and reviewed the CNA annual plan for FYs 2006 and 2007 to determine approved studies and planned deliverables. We discussed procedures with ONR and OPNAV (N81) for funding and providing oversight of FFRDC funds. In addition, we verified whether task orders met the criteria of Federal Acquisition Regulation Subpart 35.017 and the FFRDC Management Plan.

We verified whether ONR effectively and efficiently managed FFRDC funds by reviewing obligation funding documents and transactions from the Standard Accounting and Reporting System (STARS). We collected and reviewed monthly STARS queries to determine the effectiveness of CNA funds management. We compared a sample of obligations from the STARS financial records to the Federal Procurement Data System.
(FPDS) to identify discrepancies. We determined through discussions with ONR personnel whether ONR completed required obligation validation reviews of outstanding obligations.

We reviewed a statistical sample of completed task orders to determine whether OPNAV (N81) personnel properly performed close out procedures. Specifically, we obtained a sample of 74 core and above-core closed task-orders from a universe of 205 from FY 2005.

We discussed FFRDC oversight procedures with the Under Secretary of Defense (Acquisition, Technology, and Logistics), Office of the Secretary of Defense personnel. We also discussed the process used to support the independent research fees paid to DoD’s other two studies and analyses FFRDCs – Institute for Defense Analyses (IDA) and RAND – and compared those independent review fees to the CNA-initiated studies fees paid to CNA.

We reviewed the funding status reports provided by ONR personnel for FYs 2006 and 2007. From the funding status reports, we analyzed expenditures for CNA-initiated studies, exercise support, field, and scientific analysts programs.

We reviewed 24 completed studies\(^{10}\) from 12 product areas in FY 2006 to determine whether the studies provided value to the Navy and whether the Navy or Marine Corps management implemented these studies. We chose the 24 studies by judgmentally selecting two completed studies from each of the 12 Product Areas in FY 2006.

We discussed cost-benefit analysis with OPNAV (N81) personnel to determine whether the Navy justified the continued need for the field and scientific analysts programs. We held further discussions with OPNAV (N81) personnel on how they determined the number of people needed to work in these programs. We researched the procedures and documents used by OPNAV (N81) in providing support for the use of 9 staff years of technical effort in managing the scientific analyst program.

We reviewed ONR’s rationale and justification for carry-forward funding on individual task orders from the expiring FFRDC contract to the new FFRDC contract. Specifically, we verified whether the carry-forward amount of $18.6 million from FY 2005 (expiring FFRDC contract) to the new FY 2006 (base year FFRDC contract) agreed with the official STARS accounting records.

We interviewed field and scientific analysts to determine their job functions and the deliverables they provided to the Navy. We also conducted phone interviews with field analysts at various Naval commands.

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\(^{10}\) We selected 24 completed studies from a universe of 386 completed in FY 2006.
We reviewed FY 2005 above-core funding documents (request for contractual procurements and military interdepartmental purchase requests) to determine if above-core funds on the contract were obligated in a timely manner. We also reviewed the 3 March 2008 STARS query report to determine the existence of outstanding obligations for task orders from FYs 2005 through 2007.

We reviewed a sample of 23 completed\(^{11}\) CNA-initiated projects from FYs 2006 and 2007\(^{12}\) to determine the sufficiency of COTR oversight and if they met core competency objectives.

We did not identify any prior DoD Inspector General, Government Accountability Office, Air Force Audit Agency, Army Audit Agency, or Naval Audit Service reports issued within the last 5 years that addressed the same or similar issues related to management and oversight of FFRDC funds at CNA.

We conducted this performance audit in accordance with Generally Accepted Government Auditing Standards. Those standards require that we plan and perform the audit to obtain, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives. Data quality was sufficient for use in the audit.

\(^{11}\) At the time of our review, there were only 23 studies marked as completed. The remaining studies were marked as either “Studies in Progress” or “Terminated.”

\(^{12}\) Eight in FY 2006 from a universe of 43 completed CNA initiated studies. Fifteen in FY 2007 from a universe of 38 completed CNA initiated studies.
### Exhibit C:

## Activities Visited or Contacted

<table>
<thead>
<tr>
<th>Activities</th>
<th>Visited</th>
<th>Contacted</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 Under Secretary of Defense, Acquisition, Technology &amp; Logistics USD (AT&amp;L), Arlington, VA</td>
<td>✔️</td>
<td></td>
</tr>
<tr>
<td>2 Office of Chief of Naval Research (ONR), Arlington, VA</td>
<td>✔️</td>
<td></td>
</tr>
<tr>
<td>3 Center for Naval Analyses (CNA), Alexandria, VA</td>
<td>✔️</td>
<td></td>
</tr>
<tr>
<td>4 Commander, U. S. Fleet Forces Command (CFFC), Norfolk, VA</td>
<td>✔️</td>
<td></td>
</tr>
<tr>
<td>5 Commander, Second Fleet (COMSECONDFLT), Norfolk, VA</td>
<td>✔️</td>
<td></td>
</tr>
<tr>
<td>6 Commander, Operational Test and Evaluation Force (COMOPTEVFOR), Norfolk, VA</td>
<td>✔️</td>
<td></td>
</tr>
<tr>
<td>7 Commander, Naval Submarine Forces (COMNAVSUBFOR), Norfolk, VA</td>
<td>✔️</td>
<td></td>
</tr>
<tr>
<td>8 Commander, U.S. Joint Forces Command (USJFCOM), Suffolk, VA</td>
<td>✔️</td>
<td></td>
</tr>
<tr>
<td>9 Naval Network Warfare Command (NETWARCOM) Little Creek, VA</td>
<td>✔️</td>
<td></td>
</tr>
<tr>
<td>10 Commander, Strike Force Training Pacific (CSFTP), San Diego, CA</td>
<td>✔️</td>
<td></td>
</tr>
<tr>
<td>11 Naval Mine and Anti-Submarine Warfare Command (NMAWC-CC), Corpus Christi, TX</td>
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</tr>
<tr>
<td>12 Commander, Pacific Command (PACOM), Honolulu, HI</td>
<td>✔️</td>
<td></td>
</tr>
<tr>
<td>13 Commander, Third Fleet (COMTHIRDFLT), San Diego, CA</td>
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<td></td>
</tr>
<tr>
<td>14 Naval Strike and Air Warfare Center (NSAWC), Fallon, NV</td>
<td>✔️</td>
<td></td>
</tr>
<tr>
<td>15 Commander, U.S. Pacific Fleet (COMPACFLT), Honolulu, HI</td>
<td>✔️</td>
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</tr>
<tr>
<td>16 Commander, Electronic Attack Wing, Pacific (COMVAQWINGPAC), Whidbey Island, WA</td>
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<tr>
<td>17 Air Test and Evaluation Squadron Nine (VX-9), China Lake, CA</td>
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<tr>
<td>18 Marine Special Operations Command (MARSOC), Camp Lejeune, NC</td>
<td>✔️</td>
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</tr>
<tr>
<td>19 Marine Forces Pacific (MARFORCPAC), Camp H. M. Smith, HI</td>
<td>✔️</td>
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<tr>
<td>20 Marine Aviation Weapons and Tactics Squadron-1 (MAWTS-1), Yuma, AZ.</td>
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</table>
### Exhibit D:

### List of Fiscal Year 2006 Center for Naval Analyses Research Task Order Completion Reports

<table>
<thead>
<tr>
<th>Charge No.</th>
<th>Published Title</th>
<th>Authorized Funding</th>
<th>Project Total</th>
<th>Excess Funds</th>
<th>Date Study Started</th>
<th>Date Study Completed</th>
<th>Total STE Hours Incurred</th>
<th>Study Implemented</th>
<th>Add Value to the Navy</th>
</tr>
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<tbody>
<tr>
<td>0004.004.4780.00</td>
<td>Strategic Management System For Navy Acquisition</td>
<td>$90,915.00</td>
<td>$93,353.24</td>
<td>$8,841.76</td>
<td>3/1/2005</td>
<td>9/30/2006</td>
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<tr>
<td>0004.004.4781.00</td>
<td>Improving Navy’s buying power through cost savings</td>
<td>$300,000.00</td>
<td>$173,961.00</td>
<td>$126,800.00</td>
<td>5/1/2005</td>
<td>10/30/2006</td>
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<td>0004.004.4863.00</td>
<td>Update on Age/Hours factor for FHP Budgeting</td>
<td>$100,000.00</td>
<td>$106,936.92</td>
<td>$6,839.08</td>
<td>3/4/2005</td>
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<td>0004.004.3564.00</td>
<td>Safety Business Case Analyses</td>
<td>$15,000.00</td>
<td>$15,789.00</td>
<td>$2,700.00</td>
<td>5/15/2005</td>
<td>6/15/2006</td>
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<td>0004.004.3380.00</td>
<td>Analysis of Unrestricted Line-Billet Structure 1000:000 Billet Management</td>
<td>$175,000.00</td>
<td>$183,767.35</td>
<td>$8,757.56</td>
<td>12/29/2004</td>
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<td>0004.004.3593.00</td>
<td>Productivity Effects of Changes in the Size of the Exited Recycler Force</td>
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<td>$417,169.29</td>
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<td>0004.010.3345.00</td>
<td>Improving ASW Training Against Dieselans</td>
<td>$301,455.00</td>
<td>$340,622.99</td>
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<td>Progress in the Training of Ship Captains for Field Readiness Training Program Exercises</td>
<td>$190,000.00</td>
<td>$134,367.54</td>
<td>$55,632.46</td>
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<td>0004.004.4742.00</td>
<td>Analysis of the Marine Corps Office Manager System Email Report</td>
<td>$559,111.00</td>
<td>$285,982.92</td>
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<td>0004.004.4761.00</td>
<td>USCIF Support to Hurricane Katrina: Legal Implications and Opportunities for Force Mobilization</td>
<td>$128,840.00</td>
<td>$118,267.67</td>
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<td>Navy Manning Reduction Risk Analyses: A Model Framework Case Studies</td>
<td>$150,000.00</td>
<td>$161,843.00</td>
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<td>1198</td>
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<td>0004.004.3251.00</td>
<td>Changes in the Navy’s buying power. Evidence on basic questions</td>
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<td>0004.004.3437.00</td>
<td>Cost and Availability Issues for the ALG-99 Aircraft Engineering Systems</td>
<td>$250,123.00</td>
<td>$269,978.27</td>
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<td>6/30/2005</td>
<td>12/31/2006</td>
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<td>SeaBased Naval Capabilities</td>
<td>$130,000.00</td>
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<td>Framework for an Objective IRS Concept of Operations</td>
<td>$500,000.00</td>
<td>$318,615.69</td>
<td>$181,384.31</td>
<td>3/1/2005</td>
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<td>0004.004.3441.00</td>
<td>Assessment of the army’s campaign models as they relate to ISR capabilities</td>
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<td>Get paid now or get paid later: What are caller definitions?</td>
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<td>0004.004.3555.00</td>
<td>Does Education Reform Make Recruiting More Difficult</td>
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<td>Navy Anti-Terror Strategic Plan: 2005 Survey Results</td>
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<td>Preventing Security Cooperation Partners in Gulf Guinea</td>
<td>$45,319.00</td>
<td>$45,923.10</td>
<td>$596.00</td>
<td>6/30/2006</td>
<td>11/30/2006</td>
<td>402</td>
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</tbody>
</table>

**N.R.** - No response from sponsor

Note: 1,810 hrs is the equivalent to one STE
Appendix 1:
Management Response from the Chief of Naval Research

From: Chief of Naval Research
To: Naval Audit Service, Assistant Auditor General for Research, Development, Acquisition, and Logistics Audits
Subj: NAVAL AUDIT SERVICE DRAFT AUDIT REPORT N2007-HA8400-0016R.000, ACQUIRING SERVICES THROUGH THE CENTER FOR NAVAL ANALYSIS
Ref: [a] HAVAUSDV memo N2007-HA8400-0016R.000 of 13 Jan 09
Encl: (1) Draft SOP dated 26 February 2009

1. Per reference (a), the Naval Audit Service conducted an audit of the Center for Naval Analyses (CNA) from 30 July 2007 to 9 January 2009 and made two recommendations:

   a. That the Office of Naval Research (ONR) Controller “document triennial obligation validation reviews on B&D, R&D [Research Development, Test & Evaluation] funds of the current FFREC [Federally Funded Research & Development Center] contract by completing a formal signed confirmation statement attesting to the accomplishment of the review and accuracy and completeness of the recorded amounts”; and

   b. That ONR’s Contracting Officer for the CNA contract “document standard operating procedures [SOP] for accounting for above core appropriated funding for task orders on expiring FFREC contracts and contract completion and contract closeout for above core task orders. Specifically, document procedures that track and identify funding that could be de-obligated and returned to the customers.”

2. We concur with both recommendations. ONR’s Controller will document triennial reviews and include documentation in certifications beginning with the 31 May 2009 triennial review requirement. In response to the second recommendation, we have attached a draft of our SOP that explains ONR’s Contracting Officer’s procedure for identifying and tracking funding that could be de-obligated and returned to customers (enclosure[1]). The projected completion date for our final SOP is 31 May 2009.

3. We did not identify any information in the draft audit report that is exempt from release under the Freedom of Information Act (FOIA).

4. My doc on this matter is [Redacted], Deputy Inspector General,
   Phone: [Redacted], Email: [Redacted]
   CAPT, SC, USN
   By direction

Management included a draft SOP with their response to the recommendations. The SOP is not pertinent to the understanding of this report, and we removed it for final publication.
Appendix 2:
Management Response from the Director Assessment Division, Office of the Chief of Naval Operations

From: Director, Assessment Division (N81), Office of the Chief of Naval Operations
To: Naval Audit Service

Subj: ACQUIRING SERVICES THROUGH THE CENTER FOR NAVAL ANALYSES (DRAFT AUDIT REPORT N2007-NHA50(0-0016.000))

Ref: (a) Draft Audit Report, "Acquiring Services through the Center for Naval Analyses", February 2009

Encl: (1) Contract Modification P00066 of 6 Jan 09

1. The Chief of Naval Operations, Assessment Division (N81), is resubmitting the following comments in response to the revised Naval Audit Service (NAVSAUDC) corrective actions cited in reference (a) during the July 2007 - February 2009 review period.

Corrective Action:

"Amend the sponsoring agreement of the current 5-year PFRDC contract to add authorization for funding for the Exercise Support program".

N81 Response:

Concur. N81 has submitted a definition of exercise support for contract modification. Contract modification (enclosure (1)) refers.

Corrective Action:

"Document in the next comprehensive review that N81 completed a comparison of cost between in-house Naval personnel, not-for-profit and for-profit alternatives to support the continued need and cost effectiveness of the scientific analyst program".

N81 Response:

Concur. The next Comprehensive Review, scheduled for completion in June 2010, will document a comparison of cost between in-house naval personnel, not-for-profit and for profit alternatives for the scientific analyst program. However, for the record, the "Comprehensive Review of the Center for Naval Analyses (CNA)" of 28 June 2005 received the concurrence of the Under Secretary of Defense (Acquisition, Technology and Logistics) (USD(ALT&L)) on 15 August 2005. USD (ALT&L) accepted the review conducted by DoN which determined the need for a DoN-sponsored studies and analyses PFRDC and concurred with the findings of the results of the comprehensive review, including the discussion of alternative sources for all CNA activities.

Management included the contract modification with their response to the recommendations. The contract modification is not pertinent to the understanding of this report, and we removed it for final publication.
Subj: ACQUIRING SERVICES THROUGH THE CENTER FOR NAVAL ANALYSES (DRAFT AUDIT REPORT N2007-NAA000-0016.DD)

Additionally, N81 has recently completed a review of the current scientific analyst program during our December 2008 Zero Based Review (ZBR). DoN Flag/Senior Executive leadership were asked to provide their Product Area Manager (PAM) assessment of where they needed analytical support and flag level critiques were requested of current scientific analysts and their value provided to the command. Individual assessment forms were sent to respondents to assist them in their review. The ZBR raised the visibility of the scientific analysts assigned to DoN leadership and provided value added relative to their stated purpose. The ZBR served to identify commands requiring continued support, the level of support required, and also focused on commands that did not require the further services of either a full-time or part-time scientific analyst.

Corrective Action:

"Renegotiate the next FFRDC contract to replace the requirement that provides CNA with 6 percent of the annual CNA budgetary line and replace it with a reduced independent review fee for all CNA independent studies, with the COTR having oversight and approval authority over CNA studies. Report back to the Naval Audit Service the savings resulting from this renegotiation".

N81 Response:

Concur. N81 is requesting a FY09 contract modification to ensure that the policy permitting 6 percent of the annual budgetary line for CNA-initiated projects is subject to the adjustment of the program element during the research year. The contract modification will ensure that CNA-initiated projects do not exceed 6 percent of the program element amount available as of 1 April of each fiscal year. In addition, all CNA-initiated projects will be subject to COTR approval under the contract modification. N81 will address and report both the CNA-initiated fee as well as any costs savings that ensue in the June 2010 Comprehensive Review.

2. The response above does not require exemption from release under the Freedom of Information Act (FOIA) nor are the contents of this response considered "For Official Use Only".

3. My point-of-contact is [redacted] CNO (N811E), telephone [redacted].

Paragraph 3 contains Personally identifiable information that is exempt for release under Exemption (b)(6) of the Freedom of Information Act.