

# Naval Audit Service



## Audit Report



### Contract Administration at Fleet and Industrial Supply Center San Diego and Selected Supported Activities

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**N2009-0037**  
**1 July 2009**

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1 July 09

MEMORANDUM FOR COMMANDING OFFICER, FLEET AND INDUSTRIAL  
SUPPLY CENTER SAN DIEGO

Subj: **CONTRACT ADMINISTRATION AT FLEET AND INDUSTRIAL SUPPLY  
CENTER SAN DIEGO AND SELECTED SUPPORTED ACTIVITIES  
(AUDIT REPORT N2009-0037)**

Ref: (a) NAVAUDSVC memo 75 N2007-NAA000-0118.000. 21 Aug 07

1. The 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 Appendix.
2. Actions planned by Fleet and Industrial Supply Center San Diego meet the intent of Recommendations 1-6. 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 within 30 days after target completion dates. Please provide all correspondence to the Assistant Auditor General for Research, Development, Acquisition. And Logistics, XXXXXXXXXXXXXXXXXXXXXXXXXXXX, with a copy to the Director, Policy and Oversight, XXXXXXXXXXXXXXXXXXXX. 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).

FOIA (b)(6)

Subj: **CONTRACT ADMINISTRATION AT FLEET AND INDUSTRIAL SUPPLY  
CENTER SAN DIEGO AND SELECTED SUPPORTED ACTIVITIES  
(AUDIT REPORT N2009-00XX)**

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Assistant Auditor General  
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# Executive Summary

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## Overview

The Fleet and Industrial Supply Center San Diego (FISC SD), CA, provides contracting, acquisition, and contract administration support and expertise to designated Naval commands as assigned by Commander, Fleet and Industrial Supply Centers (COMFISCS). FISC SD is one of seven FISCs reporting to the COMFISCS headquartered in San Diego, CA. COMFISCS is a component of the Naval Supply Systems Command (NAVSUP).

We conducted our review of contract actions obligated by FISC SD. FISC SD awarded 7,247 contract actions with a total obligated amount of about \$689.5 million from 1 October 2005 through 30 September 2007 (Fiscal Years (FYs) 2006 and 2007). From the audit universe, we judgmentally selected 29 service contracts for audit with an obligated dollar value of about \$137.7 million. Exhibit B provides details of our scope and methodology.

## Reason for Audit

The audit objective was to verify that contract administration procedures for FISC SD contracts were effectively implemented to protect the Department of the Navy's (DON)'s interest.

This audit is the second in a series of audits addressing contract administration procedures over FISC contracts. The results of these audits and other related systemic issues will be included in an overall summary report to be issued later.

Contract Administration was identified as an area of concern in the FY 2006 DON Risk Assessment. Also, in January 1992, the Government Accountability Office identified Department of Defense (DoD) contract management as a high-risk area. This area continues to be high risk, in part, because effective oversight was not in place to ensure DoD does not pay more than the value of the goods delivered and services performed. Over the past several years, the Naval Audit Service, Government Accountability Office, and DoD Office of the Inspector General reported many findings addressing the lack of proper oversight involving DON contracts.

## Noteworthy Accomplishments

As part of the audit, we were required to review the ethics program at the FISC SD. We found that FISC SD has an effective ethics program in place in terms of the systems, processes, and procedures, to reasonably ensure compliance with DoD 5500.7-R, “The Joint Ethics Regulation,” and Executive Order 12731, “Principles of Ethical Conduct for Government Officers and Employees.”

## Conclusions

FISC SD, and the selected requiring activities, did conduct contract administration for the 29 contracts we audited; however, all files were missing some form of required documentation. Furthermore, it was not well documented that sufficient contract administration oversight was in place for 9 of the 29 contracts audited. FISC SD Contracting Office personnel stated that these conditions occurred because, when allocating resources, they prioritized contract award over contract administration and that requiring activity personnel were not aware of the level of detail and documentation required for their contract administration duties as specified in DoD guidance. We did not find any indications that services were not received. However, due to lack of surveillance documentation for 9 of the 29 contracts audited, we could not verify whether \$17.1 million of services were actually rendered in accordance with contract requirements. Specifically, the Contracting Officer’s Representative (COR) for contract N00244-05-D-0080 reviewed and accepted services for approximately \$500,000 without documentation supporting the total amount of labor hours and costs invoiced and paid for. The contractor was able to provide to Naval Audit Service supporting documentation for these charges.<sup>1</sup> As a result of not performing or documenting all required contract administration duties, FISC SD is at risk of not ensuring compliance with the terms of the contract and safeguarding the interests of the DON in its contractual relationships.

Of the 29 service contracts we audited:

- Contracting Officers (KOs) did formally appoint CORs for 20 of the 29 contracts audited as required by DoD guidance;
- KOs delegated contract administration duties to Technical Points of Contact (TPOCs) for 9 of the 29 contracts audited. However, the roles and responsibilities for the nine appointed TPOCs were not documented as required by NAVSUP guidance;

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<sup>1</sup> The contractor provided supporting documentation for these labor charges during the audit on the Selected Contracts Awarded by FISCs and NAVSUP (N2008-NAA000-0138).

- KOs developed Contract Administration Plans (CAPs) for 18 of the 21 contracts audited that required CAPS in accordance with NAVSUP guidance, but did not develop CAPs for the other 3;
- CORs/TPOCs did perform documented surveillance (via contract terms and conditions outlined in the statement of work) for 20 of 29 contracts; however this surveillance was not formalized in accordance with DoD guidance via quality assurance surveillance plans (QASPs) for 25 of 29 contracts.
- One COR certified for payment approximately \$500,000 of labor charges without verifying the work was actually performed;
- CORs/TPOCs had insufficient surveillance documentation to demonstrate that surveillance had occurred for 9 of the 29 contracts audited as stated in DoD guidance;
- KOs did not document the COR's annual review for 20 of the 20 contracts audited that required annual reviews as stated in NAVSUP guidance; and
- CORs/TPOCs did not document contractor past performance for 20 of the 25 contracts audited requiring Contract Performance Assessment Reporting.

## **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 annually certify the effectiveness of the agency's internal and accounting system controls. During this audit, we identified internal control weaknesses related to contract administration. As previously mentioned, this audit is the second in a series of audits addressing contract administration procedures at several FISC activities. We will issue separate reports for each of the FISC activities. The results of these audits and other related systemic issues will be included in an overall summary report issued a later date. At that time or sooner, we will decide whether the problems with contract administration and oversight are systemic and significant enough to be considered for inclusion in the Auditor General's annual FMFIA memorandum identifying material management control weaknesses to the Secretary of the Navy.

## **Corrective Actions**

We recommend that FISC SD:

- Formally appoint and clearly define contract administration duties for technical points of contact for all ongoing contracts awarded prior to 1 December 2006;

- Establish controls and provide oversight to ensure CORs are formally appointed and use CAPs outlining COR roles and responsibilities for specific contract administration functions for all contracts awarded after 1 December 2006;
- Establish controls and provide oversight to ensure that requiring activities develop and use QASPs that describe the procedures used to monitor the contractor's performance. The plans should describe when, where, and how surveillance is accomplished, how the results will be used, and the documentation required to support monitoring of the contractor's performance in accordance with QASP provisions;
- Require the contractor for contract N00244-06-F-1454 to submit documentation to support amounts invoiced and paid for services and materials. If the documentation provided does not support invoice amounts, initiate recoupment action to recover overpayments, and report to the Naval Audit Service the amount of any recouped funds;
- Establish and implement procedures for conducting, documenting, and tracking KO annual COR reviews, and provide oversight to ensure the reviews are performed as required.
- Assign personnel to administer the Contractor Performance Assessment Report System (CPARS) password to the appropriate requiring activity and monitor CPARS database to ensure requiring activities record contractors' past performance into the CPARS.

## Section A:

# Finding, Recommendations, and Corrective Actions

## Finding 1: Contract Administration Procedures

### Synopsis

Fleet and Industrial Supply Center San Diego (FISC SD), and the selected requiring activities, did conduct contract administration for the 29 contracts we audited; however, all files were missing some form of required documentation. Furthermore, it was not well documented that sufficient contract administration oversight was in place for 9 of the 29 contracts audited. FISC SD Contracting Office personnel stated that these conditions occurred because, when allocating resources, they prioritized contract award over contract administration and that requiring activity personnel were not aware of the level of detail and documentation required for their contract administration duties as specified in DoD guidance. We did not find any indications that services were not received. However, due to lack of surveillance documentation for 9 of the 29 contracts audited, we could not verify whether \$17.1 million of services were actually rendered in accordance with contract requirements. Specifically, the COR for contract N00244-05-D-0080 reviewed and accepted services for approximately \$500,000 without documentation supporting the total amount of labor hours and costs invoiced and paid for. The contractor was able to provide to Naval Audit Service supporting documentation for these charges.<sup>2</sup> As a result of not performing or documenting all required contract administration duties, FISC SD is at risk of not ensuring compliance with the terms of the contract and safeguarding the interests of the DON in its contractual relationships.

### Discussion of Details

#### Pertinent Guidance

**Federal Acquisition Regulation (FAR).** FAR establishes contract oversight and surveillance requirements for all Governmental contracts.

- FAR Subpart 46.103, “Contracting Officer’s Responsibilities,” provides that contracting officer (KO)s are responsible for receiving a Quality Assurance

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<sup>2</sup>The contractor provided supporting documentation for these labor charges during the audit on the Selected Contracts Awarded by FISCs and NAVSUP (N2008-NAA000-0138).

Surveillance Plan (QASP) from the requesting activity when contracting for services.

- FAR Subpart 46.4, “Government Contract Quality Assurance,” provides that a QASP should be prepared in conjunction with preparation of the statement of work and should specify all work requiring surveillance and the method of surveillance.
- FAR Subpart 42.15 provides that contracts of \$1 million or more, with a period of performance greater than 1 year, should have annual performance assessment reports. The (KO) should use the past performance information as a tool for future source selection purposes. Contracting offices should track past performance information through documentation of a completed CPARS for contracts valued at \$1 million or more.
- FAR Subpart 37.6 provides that agencies shall develop QASPs when acquiring services. The QASPs shall focus on the level of performance required by the statement of work.
- FAR Subpart 16.6 allows for the use of time-and-materials contracts only when appropriate Government surveillance during performance will provide reasonable assurance that efficient methods and effective cost controls are used.

**DoD Procurement Policy.** DoD has issued acquisition regulations to implement and supplement the FAR.

- Defense Federal Acquisition Regulation Supplement (DFARS)
  - DFARS 246.470 provides that the contract administration office shall establish a system for the planning and maintaining evidence for the collection, evaluation, and use of the types of quality evaluation data.
  - DFARS Procedures, Guidance, and Information (PGI) 201.6 provides that for all service contract actions awarded by a DoD component or any other Federal agency on behalf of DoD, contracting officers shall designate properly trained CORs in writing before contract performance begins. The DFARS PGI became effective on 1 December 2006.
- DoD Contractor Performance Assessment Report Systems (CPARS) Guide. This guide provides that responsibility for completing quality CPARS in a timely manner rests with the assessing official, who may be a Program Manager or the equivalent individual responsible for program, project, or task/job/delivery of order execution; it may also mean the Performance Evaluator, Quality Assurance Evaluator, Requirements Indicator, or the COR.

**Naval Supply Systems Command (NAVSUP) Procurement Policy.** NAVSUP issued implementing procurement guidance and policy to FAR and DoD guidance. It provides additional requirements for contract administration oversight and surveillance.

Specifically, NAVSUP Instruction 4205.3C provides guidance and procedures regarding: (1) the appointment, limitations, responsibilities, and oversight responsibilities for CORs; (2) the development of contract administration plans (CAPs); and (3) use of CPARS. NAVSUP Instruction 4205.3C requires the Procurement Contracting Office to develop a CAP, which will delineate responsibilities for specific administration functions. CAPs are only required for contracts with CORs.

DFARS PGI 201.6 provides that, for all service contract actions awarded by a DoD component, contracting officers shall designate properly trained CORs in writing before contract performance begins. The DFAR PGI became effective on 1 December 2006. Therefore, all contracts awarded after 1 December 2006 shall have a CAP.

## Audit Results

We audited 29 contracts awarded by FISC SD, all of which were awarded before 1 December 2006. The audit showed that while FISC SD and the selected requiring activities did perform contract administration, not all contract administration documentation for those 29 contracts was sufficiently maintained to ensure the CORS, Technical Points of Contact (TPOCs), and contractors were performing in accordance with contract requirements. Specifically, our audit disclosed opportunities for improvement in the following areas of contract administration oversight and surveillance:

- Contract administration roles and responsibilities;
- Verification of invoices to supporting documentation;
- CAP preparation and use;
- QASP preparation and use;
- Surveillance documentation;
- COR annual review documentation; and
- CPARS use.

### **Contract Administration Roles and Responsibilities**

FISC SD did formally appoint CORs for 20 of the 29 contracts audited to monitor contractors' performance. FISC SD informally delegated contract administration duties to TPOCs for the remaining nine contracts. KOs stated these individuals were capable of monitoring contractor performance and certifying invoices. However, FISC SD did not document the roles and responsibilities for monitoring contractors' performance to these TPOCs. Subsequent to the award of these contracts, DFARS Procedures, Guidance, and Information (DFARS PGI 201.6), 1 December 2006, was issued. This guidance provides that for all service contract actions awarded by a DoD component or any other Federal

agency on behalf of DoD, contracting officers shall designate properly trained CORs in writing before contract performance begins.

We found no evidence in the contract files or the actual contract itself outlining the TPOCs' roles and responsibilities for monitoring contractors' performance, and limited documentation supporting that the TPOCs were monitoring the contractor's performance for the nine contracts with TPOCs. Due to lack of surveillance documentation for contracts with TPOCs, we could not verify whether services were actually rendered in accordance with contract requirements.

Further, seven of the nine contracts where TPOCs were assigned contract administration duties were time-and-materials contracts. According to FAR Subpart 16.6, a time-and-materials contract provides no positive incentive to the contractor to control cost and provide for labor efficiency. A time-and-materials contract is the least desired contract type in Government contracting because it places the risk completely on the Government to control costs. Therefore, appropriate Government surveillance of contractor performance is required to give reasonable assurance that efficient methods and effective cost controls are used.

The FAR assigns KOs overall responsibility for contract administration, to include ensuring compliance with contract terms and safeguarding the interests of the Government. NAVSUP Instruction 4205.3C provides that the KOs shall appoint CORs when necessary to monitor contractor support service contracts, including orders under indefinite delivery type contracts and Basic Ordering Agreements. If personnel are evaluating contractor performance, they are doing so on the KO's behalf. In our judgment, if personnel are performing quality assurance functions, then they are part of the contract administration team. It makes good business sense for KOs to formally appoint all personnel responsible for quality assurance functions. Using written appointments helps make sure that TPOCs understand their roles and limitations of authority and that KOs and TPOCs have a mutual understanding of the roles and limitations pertaining to contract administration.

Requiring activities must recommend technically qualified personnel and work with the KO to make sure those personnel receive training in administering contracts. Although all of the CORs had training in quality assurance functions, TPOCs monitors have not received such training. The TPOCs for these nine contracts were responsible for evaluating contractor performance, validating invoices, accepting deliverables, and interacting with contractors. If TPOCs are delegated contract surveillance duties, in our opinion these individuals should be technically qualified personnel to assess whether the contractor is meeting contract requirements and trained in monitoring contractor performance and documenting results.

The following two examples are time-and-materials contracts where the contract administration duties were delegated to a TPOC:

**N00244-06-C-0059 and N00244-05-F-1077**

FISC SD initially awarded a time-and-materials contract (N00244-06-C-0059) on 25 September 2006, valued at \$2 million for Web-based support services. FISC SD also initially awarded a time-and-materials contract (N00244-05-F-1077) on 30 August 2005, valued at \$556,000, for Web development services to support the overall Homeland Security efforts. Overall, the Navy spent an estimated \$2.3 million on contract N00244-06-C-0059 and an estimated \$1.2 million on contract N00244-05-F-1077, due to contract modifications. The TPOCs for both of these contracts stated they performed actual on-site monitoring of contractor performance. According to the TPOCs, surveillance was conducted by reviewing and certifying acceptance of services. The TPOCs did not document the surveillance efforts and were unable to demonstrate that they sufficiently monitored the contractor performance. There were no surveillance plans listing the surveillance steps, frequency of surveillance, and metrics for measuring acceptable contractor performance. We did not find any indications that services were not received. However, due to lack of surveillance documentation for these two contracts, we could not verify other than through interviews with the COR that services were actually rendered in accordance with contract requirements. TPOCs need to maintain documentation to show that the contractor performed satisfactorily and billed accurately for the work performed.

**Contract Administration Plan Preparation and Use**

For the 29 service contract actions audited, 20 of the contract actions required a CAP. NAVSUP Instruction 4205.3C provided that a CAP is required when a COR is appointed under the contract. We found FISC SD personnel either developed a separate CAP document or incorporated the CAP into the contract itself for 17 of the 20 contracts requiring one. However, FISC SD personnel did not develop CAPs for three contracts that required them. FISC SD KOs stated a separate CAP was not developed or incorporated into the contract because the contract administration function remains with FISC SD. Documentation supporting contract surveillance existed for two of the three contracts without a CAP. However, due to the lack of surveillance documentation for the third contract, we could not verify that the services were rendered in accordance with contract requirements. As a result, the requiring activities may have accepted substandard performance by contractors and paid for services not in accordance with contract requirements.

A CAP is a formal process for assigning contract administration functions to responsible individuals, to include KOs, ordering officers, CORs, and Defense Contract Audit Agency (DCAA) personnel. As such, a CAP ensures: (1) satisfactory administration of service contracts; (2) compliance with contract terms and conditions during contract performance; (3) no duplication of effort; and (4) contract type, performance, and place of performance are given careful consideration when assigning duties (NAVSUP 4205.3C).

NAVSUP Instruction 4205.3C requires the Procurement Contracting Office (PCO) – in this case FISC SD – to develop a CAP, which will delineate responsibilities for specific administration functions. CAPs are only required for contracts with CORs. DFARS PGI 201.6 provides that, for all service contract actions awarded by a DoD component, contracting officers shall designate properly trained CORs in writing before contract performance begins. The DFARS PGI became effective on 1 December 2006. Therefore, all contracts awarded after 1 December 2006 shall have a CAP.

### **Quality Assurance Surveillance Plans Preparation and Use**

Selected requiring activity personnel did prepare and use QASPs for 4 of the 29 of the contract actions we audited. However, selected requiring activity personnel did not prepare and use QASPs for 25 of the 29 contracts audited. In addition, the KO personnel did not establish controls to ensure the requiring activities developed and used QASPs to monitor the contractors' performance. These conditions occurred because FISC SD Contracting Office personnel stated that when allocating resources, they prioritized contract award over contract administration and that requiring activity personnel were unclear of the requirements for QASP when contracting for services. Requiring activities did perform documented surveillance for 20 of 29 contracts; however this surveillance was not formalized in accordance with DoD guidance via QASPs for 25 of 29 contracts. Furthermore, it was not well documented that sufficient contract administration oversight was in place for 9 of the 29 contracts audited. We did not find any indications that services or supplies were not received for 28 out of the 29 contracts. The COR for contract N00244-05-D-0080 reviewed and accepted services for approximately \$500,000 without documentation supporting the total amount of labor hours and costs invoiced and paid for.<sup>3</sup> Due to lack of surveillance documentation for 9 of the 29 contracts audited, we could not verify other than through personnel interviews whether \$17.1 million of services were actually rendered in accordance with contract requirements.

FAR Subpart 46.103 provides that contracting offices are responsible for receiving a QASP from the requesting activity. FAR Subpart 37.6 provides that agencies shall develop QASPs when acquiring services. FAR Subpart 46.4 provides that Government contract quality assurance shall be performed at such times and places as may be necessary to determine that the supplies or services conform to contract requirements. QASPs should be prepared in conjunction with the preparation of the statement of work. The plans should specify all work requiring surveillance and the method of surveillance. DFARS 246.470 requires planning and evidence of quality assurance along with maintaining records of evidence for the collection, evaluation, and use of the types of quality evaluation data.

In our judgment, sufficient contract surveillance involves creating a surveillance plan for a contractor's performance and costs, performing surveillance in accordance with the

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<sup>3</sup> The contractor provided supporting documentation for these labor charges during the audit on the Selected Contracts Awarded by FISCs and NAVSUP (N2008-NAA000-0138).

plan, and documenting those efforts to ensure accountability over the surveillance process. Planning for surveillance, and not implementing the plan, does not result in appropriate contract oversight. Performing surveillance without a plan also may not provide proper contract oversight because the methodology used in the surveillance may not be comprehensive. In addition, the length of contracts often extends over multiple years, thus increasing the likelihood of personnel turnover. If personnel turnover occurs, management cannot ensure that the surveillance steps performed by the multiple CORs assigned will be consistent and continue through the life of the contract, and no uniform historical documentation of the surveillance efforts will remain for review.

The FAR states the use of a QASP is even more necessary when dealing with cost-reimbursement and time-and-materials service contracts. These contracts present the Government with greater risk than firm-fixed-price contracts because the contractor has less incentive to control costs. To compensate for this risk, the Government must maintain close surveillance over performance to ensure that inefficient or wasteful methods are not used and that the effort is performed within the estimated cost. The plans should describe how surveillance personnel are to compare the contractor's actual performance with the contract requirements, including methods and frequency of inspections and criteria for acceptable performance.

The following examples are of two contracts without a QASP.

**N00244-06-F-1633**

There was no surveillance plan or performance metrics prepared for a fixed-price contract action at the time of our site visit. The contract has an estimated value of \$7.9 million. FISC SD awarded the contract on 1 October 2006. The KO stated that, at the time of contract award, a QASP was not required. However, the current FAR requirements for a QASP went into effect in July 1997, more than 9 years prior to the award of the contract. FAR Subpart 37.6 provides that agencies shall develop QASPs when acquiring services. FISC SD appointed a COR to monitor the performance of the contractor in accordance with the FAR. The COR stated that he conducted actual on-site monitoring of contractor performance. According to the COR, surveillance was conducted through the use of monthly progress reports, monthly costs reports, documented meeting, executive summaries, and site visits. Surveillance efforts did provide assurance that the contractor was sufficiently performing in accordance with the contract requirements. The COR did document his surveillance efforts and was able to demonstrate that he sufficiently monitored the contractor's performance. The COR documented the surveillance methodology by developing a QASP after our site visit.

**N00244-06-F-0377**

No surveillance plan or performance metrics were prepared for a time-and-materials contract action which was initially awarded with an estimated value of \$400,000. FISC SD awarded the contract on 24 February 2006. Contract modifications increased the overall cost of the contract to an estimated \$2.1 million. FISC SD delegated the contract administration duties to a TPOC. The TPOC stated he performed actual on-site monitoring of contractor performance. According to the TPOC, surveillance was conducted by performing a thorough review of all invoices. However, the surveillance efforts did not document that the contractor was sufficiently performing in accordance with the contract requirements. The TPOC did not document the surveillance efforts and was unable to demonstrate that he sufficiently monitored the contractor performance. There was no surveillance plan listing the surveillance steps, frequency of surveillance, and metrics for measuring acceptable contractor performance.

**Surveillance Documentation**

KOs and requiring activity personnel did provide sufficient contract oversight to ensure that contractors were conforming to contract terms for 20 of the 29 contract actions we audited. However, KOs and selected requiring activity personnel did not provide sufficient contract oversight documentation for 9 of the 29 contract actions audited where surveillance documentation was required. These conditions occurred because FISC SD Contracting Office personnel stated that when allocating resources, they prioritized contract award over contract administration and that requiring activity personnel were not aware of the level of detail and documentation required for their contract administration duties as specified in DoD guidance. Due to the lack of surveillance documentation for eight of the nine contracts, we could not verify whether the services were actually rendered in accordance with contract requirements. For the ninth contract, we could not verify whether services were actually received. Specifically, the COR for contract N00244-05-D-0080 reviewed and accepted services for approximately \$500,000 without documentation supporting the total amount of labor hours and costs invoiced and paid for.<sup>4</sup>

CORs and TPOCs should document contractors' performance as surveillance occurs. DoD guidance maintains that this documentation constitutes an official record and the surveillance personnel assessing performance are to use a checklist to record their observations of the contractor's performance. The guidance also concludes that all performance should be documented whether or not it is acceptable. If surveillance is not conducted, not sufficient, or not well documented, DON is at risk of being unable to identify and correct poor contractor performance in a timely manner or at risk of paying contractors more than the value of the services they performed.

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<sup>4</sup> The contractor provided supporting documentation for these labor charges during the audit on the Selected Contracts Awarded by FISCs and NAVSUP (N2008-NAA000-0138).

The following contracts are examples of contracts in which the COR or TPOC had insufficient surveillance documentation to demonstrate that surveillance occurred as required by DoD guidance.

**N00244-05-D-0080**

FISC SD Contracting Office awarded contract N00244-05-D-0080 in September 2005, for services to load and stow subsistence and supplies on-board all DoD ships located in San Diego, CA; Bremerton, Everett, and Bangor, WA; and Naval Station Pearl Harbor, HI. We only audited the task orders for San Diego. Those task orders totaled approximately \$4 million

The COR did not develop or use a documented surveillance plan to monitor contractor's performance as required by DoD and FAR guidance. FAR Subpart 46.103 states that contracting offices are responsible for receiving a QASP from the requesting activity. A QASP should describe when, where, and how surveillance is accomplished. FAR Subpart 37.6 provides that agencies shall develop QASPs when acquiring services. The COR stated that he monitors the contractor's performance by visiting the piers, performing spot checks, and verifying shipboard load outs. The COR also stated that they interface with the Logistic Support Representatives. The COR did not document the spot checks or the Logistic Support Representative meetings.

We determined that the COR did not sufficiently review the bi-weekly invoices the contractor submitted to verify the accuracy of labor charges. Instead, the COR approved the invoices for payment without verifying labor hours and questioning the labor costs. The COR only verified the total daily hours charged for each day by labor category. The COR did not calculate/verify each contractor employee's daily total working hours by subtracting the time that person finished his workday to the time that person started his workday.

We reviewed contractor labor costs on the bi-weekly invoices and daily labor hour time sheets from 1 October 2005 through 30 September 2007. The summary section of each invoice included a breakdown of total labor dollars by labor rate. The contractor also provided daily labor sheets with each invoice. These daily labor sheets contained employee names, start time, end time, and the total hours worked each day. We performed an analysis on each employee, the start time, the end time, and the total hours charged by that employee. We then calculated the daily total hours worked for each employee by subtracting the start time from the end time to arrive at the calculated hours worked. We then compared the calculated hours worked to the total hours listed on the daily labor hour sheets. If there was a difference between the calculated hours worked and the total hours charged on the daily labor hour time sheets, we calculated the variance by the employee hourly labor rate.

During our review of 54 invoices, we determined that the COR accepted approximately \$500,000 of labor charges without supporting documentation over a 2-year period. All 54 invoices were paid. The contractor was able to provide support for these charges to Naval Audit Service<sup>5</sup> Fifty of the 54 invoices were accepted by the COR and certified by another person. Four of these 54 invoices, valued at \$421,775, were accepted and certified for payment by the COR because the certifying individual was not available. A key element in a system of internal control is separation of duties. DoD Financial Management Regulation Volume 5, Chapter 1, Subpart 010507 provides that separation of duties precludes errors or attempts at fraud or embezzlement from going undetected. Key duties such as authorizing, approving, and recording transactions; issuing or receiving assets; making payments; preparing checks and check signing; certification of funding; and reviewing or auditing shall be assigned to separate individuals to minimize the risk of loss to the Government to the greatest extent possible.<sup>6</sup>

Per the contract, invoices for services rendered under this contract shall be submitted electronically through Wide Area Work Flow — Receipt and Acceptance (WAWF). The contract requires that a separate invoice be prepared every 2 weeks. According to the contract, employee time sheets and summary sheets are required in WAWF, and the subcontractor is responsible for entering this information. The COR stated further that he is responsible for certifying the receipt and the acceptance of the services in WAWF, and a separate individual is responsible for certifying the invoices for payment.

#### **N00244-06-F-1454**

FISC SD awarded contract N00244-06-F-1454, a time-and-materials contract, on 22 September 2006, for approximately \$7.4 million. The contract is for the Office of the Executive Learning Officer (ELO), Navy's FLAG University. The FLAG University is an initiative to conduct career-long professional development programs for senior Navy military and DON civilians. KOs at FISC SD did not appoint a COR to monitor the performance of the contractor's performance. KOs delegated contract administration duties to a TPOC for this contract. However, FISC SD did not document the roles and responsibilities for this TPOC. The contract provides that the contractor is required to provide monthly deliverables in the form of status and progress reports. We determined that monthly status and progress reports were not prepared by the contractor; supporting documentation for the majority of materials and supplies was not provided to Naval Post Graduate School's Research Office for

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<sup>5</sup> The contractor provided supporting documentation for these labor charges during the audit on the Selected Contracts Awarded by FISCs and NAVSUP (N2008-NAA000-0138).

<sup>6</sup> Naval Audit Service initiated an audit on the Selected Contracts Awarded by FISCs and NAVSUP (N2008-NAA000-0138) Audit in response to contract N00244-05-D-0080. Any corrective actions will be addressed in the Selected Contracts Awarded by FISCs and NAVSUP (N2008-NAA000-0138) Audit.

invoice certification; and purchase orders, delivery orders, or contracts for subcontractors, such as services and other consulting groups, did not exist.

The TPOC developed the requirement, approved the requirement, and accepted the service or supplies for this contract. There was no segregation of duties, which involves assigning different people the responsibilities of authorizing transactions, recording transactions, and maintaining custody of those assets. This control is intended to reduce the opportunities for any person to be in a position to both perpetrate and conceal errors or fraud in the normal course of his/her duties.

The TPOC did not develop or use a documented surveillance plan to monitor the contractor's performance, as required by DoD and FAR guidance and had insufficient surveillance documentation to demonstrate that surveillance had occurred.

### **COR Annual Review Documentation**

KOs formally appointed CORs for 20 of the 29 contracts audited. Twenty of the contract actions had required a COR Annual Review. NAVSUP Instruction 4205.3C provides that KOs must annually meet with and review the COR's files and COR's adherence to appointed duties. While FISC SD KOs stated that they meet regularly with their designated CORs, they failed to document the required COR Annual Reviews. We determined that, even though annual KO reviews of the CORs were not performed and documented for the 20 contracts audited, the CORs demonstrated that surveillance occurred for 19 of the 20 contracts. The COR for contract N00244-05-D-0080 had insufficient surveillance documentation to demonstrate that surveillance had occurred.

### **Contractor Performance Assessment Report**

Twenty-five of the 29 contracts we audited required contractor's performance to be recorded into the CPARS as provided in the DoD CPARS Guide. Four of the 29 contracts we audited were not required to be entered into CPARS because either the contracts were awarded during the same fiscal year we audited the contracts or the dollar amount of the contracts was below the CPARS dollar threshold. The requiring activities recorded past performance information for 5 of the 25 contracts into the past performance data collection systems. However, the requiring activities did not sufficiently record past performance for 20 of those 25 contracts into the CPARS. This occurred because FISC SD did not assign CPARS passwords to the appropriate requiring activities. CPARS provides DON organizations and other services and agencies access to comprehensive contractor performance information to assist in making practical source selection decisions. Not recording contractors' past performance information in CPARS deprives the Government of a valuable tool for making responsible decisions in future contract awards.

## Recommendations

We recommend that FISC SD:

**Recommendation 1.** Formally appoint and clearly define contract administration duties for TPOCs for all ongoing contracts awarded prior to 1 December 2006. Specifically, make sure contracting officers:

- Assign responsibilities for reviewing and approving invoices;
- Require the use of surveillance plans to outline steps that TPOCs will perform to monitor contractor's performance;
- Document TPOCs roles and responsibilities in appointment letters;
- Require contract surveillance training for TPOCs;
- Ensure the appearance of personal services does not exist; and
- Require TPOCs to document their surveillance of the contractor's performance.

**NAVSUP and FISC SD response to Recommendation 1.** Concur. FISC SD will review active contracts awarded prior to 1 December 2006, to ensure the appearance of personal services does not exist and will report out the status and FISC SD's response to any personal services contracts found. In the course of this review, FISC SD will designate via appointment letters roles and responsibilities for TPOCs (if they are assigned) within those contracts. In addition, those contracts awarded prior to December 2006, and any future contracts will be reviewed to: a) formally include assigned responsibilities for reviewing/approving invoices; and, b) formally include surveillance plans to outline how monitoring of contractors' performance will be done and will require TPOCs to document their surveillance of the contractor's performance. FISC SD will require surveillance training of those TPOCs identified during review of active contracts awarded prior to December 2006, and future contracts requiring assignment of TPOCs.

**Naval Audit Service comment on response to Recommendation 1.**

Management addressed the issue raised in the audit results and the action planned meets the intent of the recommendation. Recommendation considered open until action is completed by 30 October 2009.

**Recommendation 2.** Establish controls and provide oversight to ensure CORs are formally appointed and use formal CAPs outlining COR roles and responsibilities for specific contract administration functions for all contracts awarded after 1 December 2006. The CAPS should include the following administration functions:

- Reviewing, certifying, and paying of invoices; and,

- Assessing contractor past performance.

**NAVSUP and FISC SD response to Recommendation 2.** Concur. FISC SD will establish controls and provide oversight to ensure that CORs are formally appointed in writing and use formal CAPs to identify roles and responsibilities for contract administration functions to include reviewing, certifying, and paying of invoices; and assessing contractor past performance. FISC SD will utilize Contract Administration Plan Templates posted on the NAVSUP Contract Knowledge Site (CKS) for use as required and the CAP checklist which sets forth the information the Requiring Activity is to furnish to the Contracting Officer to aid in developing the full CAP. FISC SD is in the process of establishing controls by adding audit of QASA, CAPs, and CPARS into FISC SD's Quarterly Quality Assurance Self-Assessment reviews. FISC SD will also initiate a COR Audit Program to ensure CORs are properly assigned in writing and reviews are performed. These controls will determine if CAPs were adequately performed, if CORs were appropriately delegated and if CPARS were loaded properly.

**Naval Audit Service comment on response to Recommendation 2.**

Management addressed the issue raised in the audit results and the action planned meets the intent of the recommendation. Recommendation considered open until action is completed by 31 August 2009.

**Recommendation 3.** Establish controls and provide oversight to ensure that requiring activities develop and use QASPs that describe the procedures used to monitor the contractor's performance. The plans should describe when, where, and how surveillance is accomplished; how the results will be used; and the documentation required to support monitoring of the contractor's performance in accordance with QASP provisions.

**NAVSUP and FISC SD response to Recommendation 3.** Concur. FISC SD will ensure contracting officers comply with NAVSUP Policy Letter 09-06 Monitoring Performance in Contracts for Services. FISC SD will utilize the QASP Drafting Guide and the QASP Usage Guide posted at the Contracting Knowledge Site which describes procedures required to monitor a contractor's performance. The QASP Drafting Guide and QASP Usage Guide answer the when, where, and how surveillance is accomplished; how the results will be used; and documentation required to support monitoring of the contractor's performance. FISC SD is in process of establishing controls by adding audit of QASPs, CAPs, and CPARS into FISC SD's Quarterly Quality Assurance Self-Assessment reviews.

**Naval Audit Service comment on response to Recommendation 3.**

Management addressed the issue raised in the audit results and the action planned meets the intent of the recommendation. Recommendation considered open until action is completed by 31 August 2009.

**Recommendation 4.** Require the contractor for contract N00244-06-F-1454 to submit documentation to support amounts invoiced and paid for services and materials. If the documentation provided does not support invoice amounts, initiate recoupment action to recover overpayments, and report to the Naval Audit Service the amount of any recouped funds.

**NAVSUP and FISC SD response to Recommendation 4.** Concur. FISC SD is requiring the contractor to provide substantiating documentation to support invoices in question. Letter of request was sent 1 May 2009. Subsequently, FISC SD will require Naval Postgraduate School (NPS) personnel to validate contractor provided documentation. Invoices that remain unsubstantiated will be sought for recoupment. The contractor will be provided 60 days to provide information. Following that, NPS will be provided 60 days to validate. FISC SD will take 60 days to document and forward results to the Naval Audit Service.

**Naval Audit Service comment on response to Recommendation 4.**

Management addressed the issue raised in the audit results and the action planned meets the intent of the recommendation. Recommendation considered open until action is completed by 31 October 2009.

**Recommendation 5.** Establish and implement procedures for conducting, documenting, and tracking KO annual COR reviews, and provide oversight to ensure the reviews are performed as required.

**NAVSUP and FISC SD response to Recommendation 5.** Concur. COR reviews will be monitored and Negotiators will be advised to document COR reviews at least on an annual basis. To this end, a new process will be implemented by 31 August 2009, wherein the Quality Assurance Program Manager (QAPM) will maintain a list of contracts that require a COR and facilitate the issuance of yearly review documentation by the Procurement Contracting Officers. The QAPM will establish procedures for tracking and conducting COR reviews.

**Naval Audit Service comment on response to Recommendation 5.**

Management addressed the issue raised in the audit results and the action planned meets the intent of the recommendation. Recommendation considered open until action is completed by 30 September 2009.

**Recommendation 6.** Assign personnel to give CPARS passwords to the appropriate requiring activity and monitor CPARS database to ensure requiring activities record contractors past performance into the CPARS.

**NAVSUP and FISC SD response to Recommendation 6.** Concur. FISC SD is drafting a local CPARS Standard Operating Procedure. The following actions are being included: validating CPARS database, identifying/inputting appropriate

contracts, registration of users (to include passwords to requiring activities), and training of workforce. CPARS Management Reports will be provided to Operational Division Directors on a monthly basis. These Management Reports will include a listing of Auto-Registered Contracts, Processing Time Report, Contract Status Report, and CPARS Status Report. To support the implementation of CPARS, Code 200 Management incorporated this into Division Directors' performance objectives (completed in March 2009).

**Naval Audit Service comment on response to Recommendation 6.**

Management addressed the issue raised in the audit results and the action planned meets the intent of the recommendation. Recommendation considered open until action is completed by 31 August 2009.

**Section B:**

# Status of Recommendations and Corrective Actions

RECOMMENDATIONS						
Finding <sup>7</sup>	Rec. No.	Page No.	Subject	Status <sup>8</sup>	Action Command	Target or Actual Completion Date
1	1	16	<p>Formally appoint and clearly define contract administration duties for TPOCs for all ongoing contracts awarded prior to 1 December 2006. Specifically, make sure contracting officers:</p> <ul style="list-style-type: none"> <li>• Assign responsibilities for reviewing and approving invoices;</li> <li>• Require the use of surveillance plans to outline steps that TPOCs will perform to monitor contractor's performance;</li> <li>• Document TPOCs roles and responsibilities in appointment letters;</li> <li>• Require contract surveillance training for TPOCs;</li> <li>• Ensure the appearance of personal services does not exist; and</li> </ul> <p>Require TPOCs to document their surveillance of the contractor's performance.</p>	O	FISC SD	10/30/09
1	2	16	<p>Establish controls and provide oversight to ensure CORs are formally appointed and use formal CAPs outlining COR roles and responsibilities for specific contract administration functions for all contracts awarded after 1 December 2006. The CAPS should include the following administration functions:</p> <ul style="list-style-type: none"> <li>• Reviewing, certifying, and paying of invoices; and,</li> <li>• Assessing contractor past performance.</li> </ul>	O	FISC SD	08/31/09

<sup>7</sup> / + = Indicates repeat finding

<sup>8</sup> / 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

RECOMMENDATIONS						
Finding <sup>7</sup>	Rec. No.	Page No.	Subject	Status <sup>8</sup>	Action Command	Target or Actual Completion Date
1	3	17	Establish controls and provide oversight to ensure that requiring activities develop and use QASPs that describe the procedures used to monitor the contractor's performance. The plans should describe when, where, and how surveillance is accomplished; how the results will be used; and the documentation required to support monitoring of the contractor's performance in accordance with QASP provisions.	O	FISC SD	08/31/09
1	4	18	Require the contractor for contract N00244-06-F-1454 to submit documentation to support amounts invoiced and paid for services and materials. If the documentation provided does not support invoice amounts, initiate recoupment action to recover overpayments, and report to the Naval Audit Service the amount of any recouped funds.	O	FISC SD	10/31/09
1	5	18	Establish and implement procedures for conducting, documenting, and tracking KO annual COR reviews, and provide oversight to ensure the reviews are performed as required.	O	FISC SD	09/30/09
1	6	18	Assign personnel to give CPARS passwords to the appropriate requiring activity and monitor CPARS database to ensure requiring activities record contractors past performance into the CPARS.	O	FISC SD	08/31/09

## Exhibit A:

# Background

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The Fleet and Industrial Supply Centers (FISCs) provide logistics, business, and support services to fleet, shore, and industrial commands of the Navy, Coast Guard, and joint and allied forces. The supply centers provide material management; contract services; transportation and consolidated mail services; technical and customer support; defense fuel products; worldwide movement of personal property; and other logistics services.

The Commander, Fleet and Industrial Supply Centers (COMFISCS), is responsible for overseeing field operations across seven FISCs. The seven FISCs are located at:

- San Diego, CA;
- Norfolk, VA;
- Jacksonville, FL;
- Yokosuka, Japan;
- Pearl Harbor, HI;
- Sigonella, Italy; and
- Bremerton (Puget Sound), WA.

COMFISCS mission is to operate as a single cohesive team and provide worldwide logistics services from more than 100 locations across 14 time zones. COMFISCS serves as the Administrative Contracting Offices for Regional Commander Support. COMFISCS is a component of the Naval Supply Systems Command and acts as the single point of contact in coordinating Naval Supply Systems Command support for base operating support functions.

## Exhibit B:

# Scope and Methodology

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Our audit was conducted from 24 September 2007 to 30 June 2009. We conducted our review of contract actions obligated by Fleet and Industrial Supply Center San Diego (FISC SD), CA. To identify our universe of contract actions obligated, we queried the Federal Procurement Data System – Next Generation (FPDS-NG). We considered the information obtained through this process as sufficiently reliable for the purposes of our audit of contract administration. We did not perform additional tests to validate the FPDS-NG database since it was beyond the scope of our audit. 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 sufficient, 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.

There were no previous audits conducted within the scope of this audit on which to follow up.

Our audit universe consisted of 7,247 contract actions with a total obligated amount of about \$689.5 million from 1 October 2005 [Fiscal Year (FY) 2006] through 30 September 2007. From the audit universe, we selected our audit sample by grouping all contract actions in the universe by location, amount obligated, type of contract (service or supply), and the location of the Contract Officer's Representative (COR). Based on our sample selection techniques, we judgmentally selected 29 service contracts for audit with an obligated dollar value of about \$137.7 million (see Exhibit D).

We evaluated internal controls and reviewed compliance with established regulations. We identified and reviewed relevant guidance from Federal Acquisition Regulation (FAR), Defense Federal Acquisition Regulation Supplement (DFARs), Financial Management Regulation (FMR), and Naval Supply Systems Command. We held meetings and discussions with contracting officers (KOs), contracting specialists at FISC SD, and gathered pertinent contract administration documentation from the KOs' files for the contracts under review. We also held discussions with CORs at receiving activities.

To determine the effectiveness and efficiency of the contract administration and invoice certification process, we interviewed CORs from selected receiving activities and discussed their procedures used to monitor contracts assigned to them. We obtained documentation to support COR contract surveillance. We relied on the contract administration data provided by the CORs and personnel at FISC SD and requiring

activities. We reviewed payment history data provided to us from the Defense Finance and Accounting Service paying offices. As part of our analysis, we assessed the completeness and sufficiency of the contract administration documentation. In addition, we assessed whether the contract documentation provided complied with the appropriate laws and regulations to evaluate internal controls. We also assessed whether the receiving activity personnel could demonstrate that DON activities received the products or services for which they paid.

**Exhibit C:****Activities Visited and/or Contacted**

<b>Activities Visited and/or Contacted</b>	
Commander, U.S. Fleet Forces Command (CFFC) *	Norfolk, VA
Commander, U.S. Naval Air Force Pacific (COMNAVAIRPAC) *	San Diego, CA
Commander, Navy Installations Command (CNIC) *	Washington, DC
Commander, Naval Surface Force (COMNAVSURFOR) *	San Diego, CA
Defense Finance and Accounting Service Payment Center - Columbus	Columbus, OH
Defense Finance and Accounting Service Payment Center - Norfolk	Norfolk, VA
Defense Finance and Accounting Service Payment Center - Pensacola	Pensacola, FL
Defense Finance and Accounting Service Payment Center – San Diego	San Diego, CA
Fleet and Industrial Supply Center - San Diego (FISCSD) *	San Diego, CA
Inter-Service Supply Support Operations Program (ISSOP) *	San Diego, CA
Navy Expeditionary Combat Command (NECC) *	Norfolk, VA
Naval Network Warfare Command (NETWARCOM) *	Norfolk, VA
Naval Postgraduate School (NPS) *	Monterey, CA
Naval Satellite Operations Center (NAVSOC) *	Point Mugu, CA
Naval School of Health Sciences Navy Drug and Alcohol Counselor School (NDACS) *	San Diego, CA
Naval Special Warfare Center (NAVSPEC) *	Coronado, CA
Naval Surface Warfare Center (NSWC) *	Corona, CA
Navy Center for Tactical Systems Interoperability (NCTSI) *	San Diego, CA
Southwest Regional Maintenance Center (SWRMC) *	San Diego, CA
Tactical Training Group, Pacific (TACTRAGRUPAC) *	San Diego, CA

\* Activities visited

**Exhibit D:**

# Contract Information

	<b>Contract Number</b>	<b>Requesting Activity</b>	<b>Contract Description</b>	<b>Type of Contract</b>	<b>Contract Amount</b>
1	N00244-06-F-1454	Naval Postgraduate School	Conduct Career-Long Professional Dev. Programs	Time and Materials	\$7,436,999.16
2	N00244-06-F-1633	Commander, Naval Surface Forces	Administrative Mgmt. & General Consulting Services	Time and Materials	\$7,936,231.55
3	N00244-02-C-0008	Navy Center for Tactical Systems Interoperability	Engineering Support Services	Cost Plus Fixed Fee	\$6,869,002.00
4	N00244-06-D-0049	Commander Naval Air Forces	Provide aviation logistics and maint. support to all ships and shore stations	Cost Plus Fixed Fee	\$4,583,521.64
5	N00244-05-D-0080	Inter-Service Supply Support Operations Program	Support Services for Ship Construction	Time and Materials	\$4,025,540.00
6	N00244-01-D-0040 (Seal Beach)	Naval Satellite Operations Center	Operational Mgmt. of Assigned Satellites and Sys.	Cost Plus Fixed Fee	\$4,465,992.00
7	N00244-06-C-0021	Southwest Regional Maintenance Center	Ship Building and Repairing	Time and Materials	\$1,925,115.50
8	N00244-03-D-0037 (Seal Beach)	Naval Satellite Operations Center	Provide On-Orbit Engineer Support & Mgmt. to Fleet Satellite Comm.	Cost Plus Fixed Fee	\$1,272,444.00
9	N00244-07-C-0007 (Seal Beach)	Naval Surface Warfare Center (NSWC) Corona	Provide Threat Related Support Service to NSWC	Cost Plus Award Fee	\$9,256,716.42
10	N00244-06-F-0650	Commander, Navy Installations Command	Administrative Mgmt. & General Consulting Services	Time and Materials	\$1,140,651.00
11	N00244-06-F-0683	Naval Network Warfare Command	Consulting services to leadership team developed for Enterprise	Firm Fixed Price	\$2,099,683.57
12	N00244-06-F-0835	Navy Expeditionary Combat Command	Consulting services to leadership team developed for Enterprise	Firm Fixed Price	\$1,399,966.87
13	N00244-07-F-0174	Naval Special Warfare Center	Seal Production Process Initiative	Firm Fixed Price	\$3,205,683.73
14	N00244-07-F-0023	Commander Fleet Forces Command	Develop and Integrate Performance Metrics for FRE	Firm Fixed Price	\$2,898,514.86
15	N00244-05-D-0077	Naval School of Health Sciences	Provide Admin. Functions for Clinical Preceptorship	Time and Materials	\$1,160,163.84
16	N00244-05-F-1502	Fleet & Industrial Supply Center - San Diego	Mgmt., organizational, & business improvement services	Cost Plus Fixed Fee	\$1,522,260.32
17	N00244-01-D-0051 (Seal Beach)	Naval Surface Warfare Center (NSWC) Corona	Provide Engineer, Tech, & Related Services to NSWC	Cost Plus Fixed Fee	\$17,117,451.00
18	N00244-05-F-1512	Fleet and Industrial Supply Center - San Diego	Perform analysis of production data	Time and Materials	\$1,901,314.43
19	N00244-05-F-1544	Fleet and Industrial Supply Center - San Diego	Mgmt., organizational, & business improvement services	Cost Plus Fixed Fee	\$1,743,273.32
20	N00244-06-F-0316	Naval Postgraduate School	Provide Admin., Managerial and Production Work	Time and Materials	\$1,199,704.80
21	N00244-06-D-0029	Naval Postgraduate School	Provide Program & Admin asks in Support of the Academic Mission	Time and Materials	\$3,300,000.00
22	N00244-06-F-0377	Naval Postgraduate School	Contractor to provide support to Homeland Security	Time and Materials	\$2,103,314.00
23	N00244-05-F-0979	Naval Postgraduate School	Contractor to provide support to Homeland Security	Time and Materials	\$1,244,979.00
24	N00244-06-C-0059	Naval Postgraduate School	To Build & Host an Online Website Applications	Time and Materials	\$2,290,303.00
25	N00244-05-F-1077	Naval Postgraduate School	Contractor to provide support to Homeland Security	Time and Materials	\$1,260,769.72
26	N00244-05-D-0067	Naval Postgraduate School	Provide Tech Support, Design, Development, & Training	Time and Materials	\$7,742,227.00
27	N00244-01-C-0002	Southwest Regional Maintenance Center	Provide Maint., Repairs, & Operational Support Service	Firm Fixed Price	\$32,051,617.07
28	N00244-06-F-0258	Commander, Naval Surface Warfare Center	Contractor provides advisory & implementation assistance service to the Surface Warfare Enterprise	Firm Fixed price	\$1,579,720.25
29	N00244-01-C-0040	Tactical Training Group, Pacific	Provide Expertise in Terrorist Activities & Threat Envir.	Cost Plus Fixed Fee	\$2,938,522.00
				<b>TOTAL:</b>	<b>\$137,671,682.05</b>

\* COR Annual Reviews were not conducted for these 9 contracts because CORs were not appointed.

\*\*CAPs were not required because CORs were not assigned.

**Exhibit E:**

# Summary of Contract Issues

Count	Contract Number	Amount (in our audit scope)	COR Assigned (Y/N)		COR Review (Y/N)		CAP (Y/N)		QASP (Y/N)		CPARS (Y/N)		Surveillance Documentation (Y/N)	
1	N00244-06-F-1454	\$ 7,436,999.16		NO		NA		NA		NO		N/A		NO
2	N00244-06-F-1633	\$ 7,936,231.55	YES			NO	YES		YES		YES		YES	
3	N00244-02-C-0008	\$ 6,869,002.00	YES			NO	YES			NO		NO	YES	
4	N00244-06-D-0049	\$ 4,583,521.64	YES			NO	YES			NO		NO	YES	
5	N00244-05-D-0080	\$ 4,025,540.00	YES			NO	YES			NO		NO		NO
6	N00244-01-D-0040 (Seal Beach)	\$ 4,465,992.00	YES			NO		NO		NO		NO	YES	
7	N00244-06-C-0021	\$ 1,925,115.50	YES			NO	YES		YES			NO	YES	
8	N00244-03-D-0037 (Seal Beach)	\$ 1,272,444.00	YES			NO		NO		NO		NO	YES	
9	N00244-07-C-0007 (Seal Beach)	\$ 9,256,716.42	YES			NO	YES		YES		YES		YES	
10	N00244-06-F-0650	\$ 1,140,651.00	YES			NO	YES			NO		N/A	YES	
11	N00244-06-F-0683	\$ 2,099,683.57	YES			NO	YES			NO		NO	YES	
12	N00244-06-F-0835	\$ 1,399,966.87	YES			NO	YES			NO		NO	YES	
13	N00244-07-F-0174	\$ 3,205,683.73	YES			NO	YES			NO		N/A	YES	
14	N00244-07-F-0023	\$ 2,898,514.86	YES			NO	YES			NO		N/A	YES	
15	N00244-05-D-0077	\$ 1,160,163.84	YES			NO	YES			NO		NO	YES	
16	N00244-05-F-1502	\$ 1,522,260.32		NO		NA	NA			NO		NO	YES	
17	N00244-01-D-0051 (Seal Beach)	\$ 17,117,451.00	YES			NO	YES			NO		NO	YES	
18	N00244-05-F-1512	\$ 1,901,314.43	YES			NO	YES			NO		NO	YES	
19	N00244-05-F-1544	\$ 1,743,273.32		NO		NA	NA			NO		NO		NO
20	N00244-06-F-0316	\$ 1,199,704.80		NO		N/A		N/A		NO		NO		NO
21	N00244-06-D-0029	\$ 3,300,000.00	YES			N/A		NO		NO		NO		NO
22	N00244-06-F-0377	\$ 2,103,314.00		NO		N/A		N/A		NO		NO		NO
23	N00244-05-F-0979	\$ 1,244,979.00		NO		N/A		N/A		NO		NO		NO
24	N00244-06-C-0059	\$ 2,290,303.00		NO		N/A		N/A		NO		NO		NO
25	N00244-05-F-1077	\$ 1,260,769.72		NO		N/A		N/A		NO	YES			NO
26	N00244-05-D-0067	\$ 7,742,227.00		NO		NO	NA		YES			NO	YES	
27	N00244-01-C-0002	\$ 32,051,617.07	YES			NO	YES			NO	YES		YES	
28	N00244-06-F-0258	\$ 1,579,720.25	YES			NO	YES			NO	YES		YES	
29	N00244-01-C-0040	\$ 2,938,522.00	YES			NO	YES			NO		NO	YES	
		<b>\$ 137,671,682.05</b>												

**Appendix:**

**Management Response from Commander, Naval Supply  
Systems Command**



DEPARTMENT OF THE NAVY  
NAVAL SUPPLY SYSTEMS COMMAND  
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IN REPLY REFER TO:  
N2007-0118  
SUP 91A  
7 May 2009

From: Commander, Naval Supply Systems Command  
To: Assistant Auditor General for Research, Development, and  
Logistics Audits

Subj: NAVAL AUDIT SERVICE DRAFT AUDIT REPORT ON CONTRACT  
ADMINISTRATION AT FLEET AND INDUSTRIAL SUPPLY CENTER  
SAN DIEGO AND SELECTED SUPPORTED ACTIVITIES  
(N2007-NAA000-0118.000)

Ref: (a) NAVAUDSVC Memorandum 7510/N2007-NAA000-0118 of  
30 Mar 09

Encl: (1) NAVSUP comments to subject draft audit report

1. We have reviewed reference (a), and enclosure (1) provides our comments to Finding 1 and Recommendations 1 through 6. We have also reviewed reference (a) from a Freedom of Information Action (FOIA) perspective, and request that any reference to Contract N00244-06-F-1454 and Contract N00244-05-D-0080 data be marked "For Official Use Only".

2. Our point of contact for this audit is [REDACTED] email: [REDACTED] Please call or e-mail [REDACTED] if you have questions. Thank you for your support.

[REDACTED]  
By direction

Copy to:  
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NAVAL SUPPLY SYSTEMS COMMAND COMMENTS ON  
NAVAL AUDIT SERVICE DRAFT AUDIT N2007-NAA000-0118.000  
OF 30 MARCH 2009 ON CONTRACT ADMINISTRATION AT  
FLEET AND INDUSTRIAL SUPPLY CENTER SAN DIEGO AND  
SUPPORTED ACTIVITIES

**Finding: Contract Administration Procedures**

Fleet and Industrial Supply Center San Diego (FISC SD), and the selected requiring activities, did perform some level of contract administration for the 29 service contracts we audited; however, every contract file was missing some form of required documentation. Further, for 9 of the 29 contracts audited, there was insufficient documentation to demonstrate that effective contract administration had occurred. These conditions occurred because, FISC SD Contracting Office personnel stated, when allocating resources, they prioritized contract award over contract administration. Also, requiring activity personnel were not aware of the level of detail and documentation required for their contract administration duties as specified in Federal Acquisition Regulations (FAR), Defense Federal Acquisition Regulation Supplement (DFARS), and Naval Supply Systems Command instruction 4205.3C. As a result of not performing or sufficiently documenting some required contract administration duties, FISC SD is at risk of not ensuring compliance with the terms of its contracts and safeguarding the interests of the DON in its contractual relationships. Due to lack of sufficient surveillance documentation for 9 of the 29 contracts audited, we could not verify whether \$17.1 million of services were actually rendered in accordance with contract requirements. Specifically, the Contracting Officer's Representative (COR) for contract N00244-05-D-0080 reviewed and accepted invoices for approximately \$500,000 without documentation supporting the total amount of labor hours and costs invoiced and paid for.

NAVSUP concurs with the finding.

**Recommendation 1**

We recommend that FISC SD formally appoint and clearly define in writing contract administration duties for Technical Points of Contact (TPOCs) for all ongoing contracts awarded prior to 1 December 2006. Specifically, make sure contracting officers:

- Assign responsibilities for reviewing and approving

**ENCLOSURE(1)**

invoices;

- Require the use of surveillance plans to outline steps that TPOCs will perform to monitor contractor's performance;
- Document TPOCs roles and responsibilities in appointment letters;
- Require contract surveillance training for TPOCs;
- Ensure that the appearance of personal services does not exist; and
- Require TPOCs to document their surveillance of the contractor's performance.

**NAVSUP comment:** Concur. FISC SD will review active contracts awarded prior to 1 December 2006, to ensure the appearance of personal services does not exist and will report out the status and FISC SD's response to any personal services contracts found. In the course of this review, FISC SD will designate via appointment letters roles and responsibilities for TPOCs (if they are assigned) within those contracts. In addition, those contracts awarded prior to December 2006, and any future contracts will be reviewed to: a) formally include assigned responsibilities for reviewing/approving invoices; and, b) formally include surveillance plans to outline how monitoring of contractors' performance will be done and will require TPOCs to document their surveillance of the contractor's performance. FISC SD will require surveillance training of those TPOCs identified during review of active contracts awarded prior to December 2006, and future contracts requiring assignment of TPOCs.

Estimated completion date is 30 October 2009.

#### **Recommendation 2**

We recommend that FISC SD establish controls and provide oversight to ensure that CORs are formally appointed in writing and use formal Contract Administration Plans (CAPs) outlining Contracting Officer's Representative (COR) roles and responsibilities for specific contract administration functions for all contracts awarded after 1 December 2006. The CAPS should include the following administration functions:

- Reviewing, certifying, and paying of invoices; and,
- Assessing contractor past performance.

**NAVSUP comment:** Concur. FISC SD will establish controls and provide oversight to ensure that Contracting Officer Representative(s) (CORs) are formally appointed in writing and use formal Contract Administration Plans (CAPs) to identify roles and responsibilities for contract administration functions to include reviewing, certifying, and paying of invoices; and assessing contractor past performance. FISC SD will utilize guidance and policy provided via NAVSUPINST4205.3C "Contracting Officer's Representative (COR)", NAVSUP Policy Letter 06-26 "Interim Changes to the NAVSUP Contracting Officer's Representative (COR) Instruction", and NAVSUP Policy Letter 09-06 "Monitoring Performance in Contracts for Services" to ensure Contracting Officers are in compliance with NAVSUP Policy for all applicable contracts awarded after 1 December 2006. In addition, FISC SD will utilize Contract Administration Plan Templates posted on the NAVSUP Contract Knowledge Site (CKS) for use as required and the CAP checklist which sets forth the information the Requiring Activity is to furnish to the Contracting Officer to aid in developing the full CAP. With regards to oversight, FISC SD is in the process of establishing controls by adding audit of Quality Assessment Surveillance Plans (QASA), CAPs, and Contractor Performance Assessment Reporting System (CPARS) into FISC SD's Quarterly Quality Assurance Self-Assessment reviews. FISC SD will also initiate a COR Audit Program to ensure CORs are properly assigned in writing and reviews are performed. These controls will determine if CAPs were adequately performed, if CORs were appropriately delegated and if CPARS were loaded properly.

Estimated completion date is 31 August 2009.

### **Recommendation 3**

We recommend that FISC SD establish controls and provide oversight to ensure that requiring activities develop and use Quality Assurance Surveillance Plans (QASPs) that describe the procedures used to monitor the contractor's performance. The plans should describe when, where, and how surveillance is accomplished; how the results will be used; and the documentation required to support monitoring of the contractor's performance in accordance with QASP provisions.

**NAVSUP comment:** Concur. FISC SD will ensure contracting officers comply with NAVSUP Policy Letter 09-06 Monitoring Performance in Contracts for Services. FISC SD will utilize the QASP Drafting Guide and the QASP Usage Guide posted at the Contracting Knowledge Site which describes procedures required to monitor a contractor's performance. The QASP Drafting Guide and QASP Usage Guide answer the when, where, and how surveillance is accomplished; how the results will be used; and documentation required to support monitoring of the contractor's performance. FISC SD is in process of establishing controls by adding audit of QASPs, CAPs, and CPARS into FISC SD's Quarterly Quality Assurance Self-Assessment reviews.

Estimated completion date is 31 August 2009.

#### **Recommendation 4**

We recommend that FISC SD require the contractor for contract N00244-06-F-1454 to submit documentation to support amounts invoiced and paid for services and materials. If the documentation provided does not support invoice amounts, initiate recoupment action to recover overpayments, and report to the Naval Audit Service the amount of any recouped funds.

**NAVSUP comment:** Concur. FISC SD is requiring the contractor to provide substantiating documentation to support invoices in question. Letter of request was sent 1 May 2009. Subsequently, FISC SD will require Naval Postgraduate School (NPS) personnel to validate contractor provided documentation. Invoices that remain unsubstantiated will be sought for recoupment. The contractor will be provided 60 days to provide information. Following that, NPS will be provided 60 days to validate. FISC SD will take 60 days to document and forward results to the Naval Audit Service.

Estimated completion date is 31 October 2009.

#### **Recommendation 5**

We recommend that FISC SD establish and implement procedures for conducting, documenting, and tracking contracting officer annual COR reviews, and provide oversight to ensure that the reviews are performed as required.

**NAVSUP comment:** Concur. COR reviews will be monitored and Negotiators will be advised to document COR reviews at least on an annual basis. To this end, a new process will be implemented

by 31 August 2009, wherein the Quality Assurance Program Manager (QAPM) will maintain a list of contracts that require a COR and facilitate the issuance of yearly review documentation by the Procurement Contracting Officers. The QAPM will establish procedures for tracking and conducting COR reviews.

Estimated completion date is 30 September 2009.

**Recommendation 6**

We recommend that FISC SD assign personnel to give Contractor Performance assessment Report Systems (CPARS) passwords to the appropriate requiring activity and monitor CPARS database to ensure that requiring activities record contractors' past performance into the CPARS.

**NAVSUP comment:** Concur. FISC SD is drafting a local CPARS Standard Operating Procedure. The following actions are being included: validating CPARS database, identifying/inputting appropriate contracts, registration of users (to include passwords to requiring activities), and training of workforce.

CPARS Management Reports will be provided to Operational Division Directors on a monthly basis. These Management Reports will include a listing of Auto-Registered Contracts, Processing Time Report, Contract Status Report, and CPARS Status Report. To support the implementation of CPARS, Code 200 Management incorporated this into Division Directors' performance objectives (completed in March 2009).

Estimated completion of training is 31 August 2009.

**Comment regarding marking of "For Official Use Only"**

FISC SD recommends marking of the final audit report with regards to Contracts N00244-06-F-1454 and N00244-05-D-0080 as "For Official Use Only" on the same basis as the draft. That is that indications of unsubstantiated invoices are pre-decisional information not yet finalized through a contracting officer's final decision.

While FISC SD recommends that this report be marked "For Official Use Only," the Naval Audit Service does not agree that the information in the report should be withheld from release. The only information that will be withheld from release is personally identifiable information that is exempt from release under Exemption (b)(6) of the Freedom of Information Act.

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