

Naval Audit Service



Audit Report



Contracting Practices for Strategic Systems Programs

This report contains information exempt from release under the Freedom of Information Act. Exemption (b)(6) applies.

~~Releasable outside the Department of the Navy~~
~~only on approval of the Auditor General of the Navy~~

N2010-0025
28 April 2010

Obtaining Additional Copies

To obtain additional copies of this report, please use the following contact information:

Phone: (202) 433-5757
Fax: (202) 433-5921
E-mail: NAVAUDSVC.FOIA@navy.mil
Mail: Naval Audit Service
Attn: FOIA
1006 Beatty Place SE
Washington Navy Yard DC 20374-5005

Providing Suggestions for Future Audits

To suggest ideas for or to request future audits, please use the following contact information:

Phone: (202) 433-5840 (DSN 288)
Fax: (202) 433-5921
E-mail: NAVAUDSVC.AuditPlan@navy.mil
Mail: Naval Audit Service
Attn: Audit Requests
1006 Beatty Place SE
Washington Navy Yard DC 20374-5005

Naval Audit Service Web Site

To find out more about the Naval Audit Service, including general background, and guidance on what clients can expect when they become involved in research or an audit, visit our Web site at:

<http://secnavportal.donhq.navy.mil/navalauditservices>



DEPARTMENT OF THE NAVY
NAVAL AUDIT SERVICE
1006 Beatty Place SE
WASHINGTON NAVY YARD, DC 20374-5005

7510
N2009-NAA00-0046
28 Apr 10

MEMORANDUM FOR DIRECTOR, STRATEGIC SYSTEMS PROGRAMS

Subj: **CONTRACTING PRACTICES FOR STRATEGIC SYSTEMS PROGRAMS (AUDIT REPORT N2010-0025)**

Ref: (a) NAVAUDSVC memo 7510 N2009-NAA000-0046.000, dated 29 Apr 09
(b) SECNAVINST 7510.7F, "Department of the Navy Internal Audit"

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. Strategic Systems Programs concurred with the recommendations and actions taken and planned meet the intent of the recommendations. Recommendation 5 is considered closed. The remaining 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 open recommendations within 30 days after target completion dates. Please provide all correspondence to the Assistant Auditor General for Research, Development, Acquisition and Logistics Audits, XXXXXXXXXXXXXXXXXXXXXXXXXXXXXXX, with a copy to the Director, Policy and Oversight, XXXXXXXXXXXXXXXXXXXXXXX. Please submit correspondence in electronic format (Microsoft Word or Adobe Acrobat file), and ensure that it is on letterhead and includes a scanned signature.

FOIA (b)(6)

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, courtesies, and professional assistance extended to our auditors during this audit effort.

[Redacted Signature]

XXXXXXXXXXXXXXXXXXXX
Assistant Auditor General
Research, Development, Acquisition and
Logistics Audits

FOIA (b)(6)

**Subj: CONTRACTING PRACTICES FOR STRATEGIC SYSTEMS
PROGRAMS (AUDIT REPORT N2010-0025)**

Copy to:

UNSECNAV

DCMO

OGC

ASSTSECNAV FMC

ASSTSECNAV FMC (FMO)

ASSTSECNAV IE

ASSTSECNAV MRA

ASSTSECNAV RDA

CNO (VCNO, DNS-33, N4B, N41)

CMC (RFR, ACMC)

DON CIO

NAVINGEN (NAVIG-4)

AFAA/DO

Table of Contents

EXECUTIVE SUMMARY	1
Overview	1
Reason for Audit.....	2
Noteworthy Accomplishments	2
Conclusions	3
Federal Managers’ Financial Integrity Act.....	3
Corrective Actions	4
SECTION A: FINDING, RECOMMENDATIONS, AND CORRECTIVE ACTIONS	5
Finding: Strategic Systems Programs’ Contracting Practices.....	5
Synopsis.....	5
Discussion of Details	6
Background	6
Pertinent Guidance	7
Audit Results	8
Quality Assurance Surveillance Plan (QASP)	9
Contracting Officer Representative (COR).....	12
Contractor Performance Assessment Reporting System (CPARS)	12
Earned Value Management (EVM) System.....	13
Defense Contract Audit Agency (DCAA) Direct Billing Authority.....	14
Management Control Program Review	15
Recommendations and Corrective Actions	16
SECTION B: STATUS OF RECOMMENDATIONS	20
EXHIBIT A: SCOPE AND METHODOLOGY.....	21
EXHIBIT B: LIST OF ACRONYMS.....	24
EXHIBIT C: ORGANIZATIONS VISITED OR CONTACTED	25
EXHIBIT D: AUDIT RESULTS.....	26
APPENDIX: MANAGEMENT RESPONSE FROM STRATEGIC SYSTEMS PROGRAMS	27

Executive Summary

Overview

Strategic Systems Programs (SSP). SSP directs the development, production, logistics support, and sustaining engineering effort of the Navy's Strategic Weapons Systems. This includes direction of research, development, manufacturing, test, evaluation, and operational support of the TRIDENT II Fleet Ballistic Missile. During Fiscal Years (FYs) 2007 and 2008, SSP awarded contract actions totaling \$3.47 billion. SSP also plans and directs the development of training systems and equipment and the training of fleet personnel in the operations of the systems, provides for facilities, and has responsibility for fulfilling the terms of the United States/United Kingdom Polaris Sales Agreement. SSP manages six lines of business:

- Strategic Weapon Systems;
- Nuclear Weapons Security;
- Submersible Ship-Guided Nuclear (SSGN) Attack Weapons System;
- Naval Treaty Implementation Program;
- Large Diameter Payloads Integration; and
- Emerging Missions.

SSP has a unique Government/Industry partnership with its contractors. Due to the specialized equipment, products, and services required by SSP, only a few contractors are able to provide the work. Because of this, SSP has worked to build long-term relationships with these contractors, some of which have been partnering with SSP for more than 50 years.

Guidance on Contract Administration. Federal Acquisition Regulation (FAR), Subpart 42.3, "Contract Administration Office Functions," prescribes general policies and procedures for post-award contract administration. The regulation outlines 70 functions of contract administration to be performed by the Contract Administration Office. These functions include ensuring contractor compliance with contractual quality assurance requirements, which are further outlined in FAR, Part 46, "Quality Assurance."

We conducted the audit from 12 May 2009 to 9 March 2010.

Reason for Audit

The Naval Audit Service conducted this audit as part of its FY 2009 audit plan. This audit was agreed to by the Office of the Assistant Secretary of the Navy (Research, Development, and Acquisition) (ASN (RD&A)). The FY 2009 Risk and Opportunity Assessment (ROA) report identified contract administration procedures as a high-risk area, as well as procurement fraud, waste, abuse, and oversight of service contracts. ASN (RD&A) and SSP provided input to the ROA that stated poorly planned and executed contracts result in delays, higher costs, wasted resources, and the Department of Navy's (DON's) inability to meet warfighter needs and mission objectives. In addition, the Government Accountability Office designated Department of Defense (DoD) contract management as a high-risk area.

The objectives of the audit were to verify that contracting practices at SSP were effectively and efficiently managed in accordance with laws and regulations; and that internal controls put in place to ensure that DON received services for which it paid, were effective.

Noteworthy Accomplishments

SSP established a new policy, SSP Contracts Office Notice 201, dated 5 September 2008, for appointing contracting officer representatives (CORs) that became effective for all FY 2009 contracts. The policy provided guidance for appointment and training requirements for CORs on service type contracts. At initiation of the purchase request and prior to award, the policy requires contracting officers to contact the technical branch to determine the individual appointed as the COR. SSP guidance also included a sample COR nomination letter, in which the technical branch must certify that the nominee has met mandatory training requirements. The policy also includes a sample COR appointment letter, which provides for the official delegation of duties and the extent of the COR's authority. Implementation of SSP Note 201 will ensure that SSP complies with Defense Federal Acquisition Regulation Supplement (DFARS) requirements for designating CORs.

Overall, the SSP effectively managed the procurement process based on our review of business clearance memoranda, Justification and Approvals, contract files, and other relevant programmatic documentation.

Conclusions

The SSP Office managed contract practices effectively and efficiently in accordance with laws and regulations. In addition, internal controls implemented to ensure that DON received services for which it paid, were effective. However, opportunities existed for SSP to improve its contracting practices by reviewing contract administration as part of its management control program; designating CORs and preparing quality assurance surveillance plans as necessary, reporting on contractor performance in the Contract Performance Assessment Reporting System (CPARS), and using past performance information for future source selections, as required. In addition, SSP should assist contractors to obtain compliant earned value management systems and authorization to participate in the direct billing program.

Command Ethics Program

During the audit, we reviewed the SSP Office ethics program. We determined that the command had an effective ethics program in place in terms of the systems, processes, procedures, etc., to reasonably ensure compliance with DoD 5500.7-R, “Joint Ethics Regulation,” and Executive Order 12731, “Principles of Ethical Conduct for Government Officers and Employees.” Based on our review, we found that SSP was compliant with ethics requirements.

Communication with Management

Throughout the audit, we kept SSP management officials informed of the conditions noted in this report. We discussed our preliminary audit results with SSP management officials on 30 September 2009. The audit team presented its findings, including its conclusion that overall SSP contract practices were effective, on 12 February 2010. We also provided recommendations for SSP to improve contracting practices.

Federal Managers’ Financial Integrity Act

The Federal Managers’ Financial Integrity Act 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. Recommendations 1 through 6 address issues related to the internal controls over contract administration. In our opinion, the conditions noted in this report do not warrant reporting in the Auditor General’s annual Federal Managers’ Financial Integrity Act memorandum identifying management control weaknesses to the Secretary of the Navy.

Corrective Actions

To improve contracting practices, we recommended that SSP designate CORs, prepare quality assurance surveillance plans, and report on contractor performance using CPARS and consider that information in future source selections, as required. In addition, SSP should assist contractors to obtain compliant earned value management systems and authorization to participate in the direct billing program. Also, SSP should include the review of internal controls for contract administration as part of its Managers Internal Control Program.

SSP concurred with all recommendations, and plans corrective actions to:

- Issue guidance and establish controls ensuring the appointment of CORs;
- Ensure quality assurance plans are prepared for each contract;
- Establish controls and oversight to ensure CPARS reports are prepared in a timely manner;
- Assist in the establishment of valid Earned Value Management systems;
- Assist contractors with obtaining direct billing authority; and
- Include contract administration as an assessable unit in its Managers Internal Control program.

Section A:

Finding, Recommendations, and Corrective Actions

Finding: Strategic Systems Programs' Contracting Practices

Synopsis

Contracting practices and internal controls at Strategic Systems Programs (SSP) were generally effective in ensuring that the Department of the Navy (DON) received services for which it paid. However, we observed opportunities for SSP to improve contracting practices and comply with selected Department of Defense (DoD) and DON Acquisition Guidance discussed in this finding. Specifically, SSP did not prepare quality assurance surveillance plans (QASPs), designate contracting officer representatives (CORs), or prepare contractor performance assessment reports as required. In addition, three contractors had four contracts that did not have approved earned value management (EVM) systems. Further, the Defense Contract Audit Agency (DCAA) rescinded contractors' authority to submit interim vouchers directly to the Defense Finance and Accounting Service for payment, and SSP did not review contract administration as part of its management control program.

Several factors contributed to these conditions:

- Quality assurance plans or letters of delegation to the administering contracting office were not finalized for 7 of the 21 contracts audited, and the use of boilerplate language in those contracts led to confusion about the responsibility for quality assurance;
- SSP did not issue guidance to implement the Defense Finance Acquisition Regulation Supplement (DFARS) requirement for appointing CORs prior to 5 September 2008, when SSP Contracts Office Notice (SPN) Note 201 was issued;
- SSP completed 13 of 19 Contract Performance Assessment Reporting System (CPARS) reports but did not complete the other six because SSP representatives told us they experienced technical problems with the CPARS system. Further, SSP did not assign responsibility for preparing CPARS reports, did not provide sufficient oversight of CPARS reporting, and did not sufficiently apply the policy for CPARS reporting;
- The Defense Contract Management Agency (DCMA) did not validate the contractors EVM systems for three contractors involving four contracts that met

EVM criteria. Overall, seven contracts involving five contractors required validation;

- DCAA had not audited and approved the contractors billing systems because the contractors either implemented new billing systems, or made significant changes to their existing systems; and
- Contract administration was not subjected to review as a part of SSP's management control program because SSP's officials believed that they sufficiently covered this area by other evaluation methods, such as audits and inspections.

The principal effects of these conditions were potential schedule delays, cost overruns, and poor contractor performance. In addition, these conditions may lead to inefficient use of resources and may deprive SSP of needed services. Other effects included noncompliance with contract regulations and weakened safeguards against waste and loss of assets.

Discussion of Details

Background

SSP directs the development, production, logistics support, and sustaining engineering effort of the Navy's Strategic Weapons Systems. This includes direction of research, development, manufacturing, test, evaluation, and operational support of the TRIDENT II Fleet Ballistic Missile. During Fiscal Years (FYs) 2007 and 2008, SSP awarded contract actions totaling \$3.47 billion. SSP also plans and directs the development of training systems and equipment, the training of fleet personnel in the operations of the systems, provides for facilities, and has responsibility for fulfilling the terms of the United States/United Kingdom Polaris Sales Agreement. SSP manages six lines of business:

- Strategic Weapon Systems;
- Nuclear Weapons Security;
- Submersible Ship Guided Nuclear (SSGN) Attack Weapons System;
- Naval Treaty Implementation Program;
- Large Diameter Payloads Integration; and
- Emerging Missions.

SSP has a unique Government/Industry partnership with its contractors. Due to the specialized equipment, products, and services required by SSP, only a few contractors are able to provide the required work. Because of this, SSP has worked to build long-term

relationships with these contractors, some of which have been partnering with SSP for more than 50 years.

Pertinent Guidance

Federal Acquisition Regulation (FAR) Subpart 42.3 “Contract Administration.”

FAR 42.3 provides that, when a contract is assigned for administration under Subpart 42.2, the contract administration office (CAO) shall perform contract administration functions in accordance with 48 Code of Federal Regulations, Chapter 1, the contract terms, and, unless otherwise agreed to in an interagency agreement, the applicable regulations of the servicing agency.

FAR Subpart 46.4, “Government Contract Quality Assurance.” FAR 46.4 provides that Government contract quality assurance shall be performed at such times (including any stage of manufacture or performance of services) and places (including subcontractors’ plants) 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 Subpart 234.2, “Earned Value Management Systems.” DFARS 234.2 provides that, for cost or incentive contracts and subcontracts valued at \$50 million or more, the contractor shall have an EVM system that has been determined by the cognizant Federal agency to be in compliance with the guidelines in American National Standards Institute/Electronic Industries Alliance Standard 748, “Earned Value Management Systems” (ANSI/EIA-748).

DFARS 201.6, “Responsibilities of Contracting Officer’s Representative (COR).”

DFARS 201.6 provides that a COR assists in the technical monitoring or administration of a contract. For contract actions for services awarded by a DoD component, or by any other Federal agency on behalf of DoD, contracting officers shall designate a properly trained COR in writing before award. The surveillance activities performed by CORs should be tailored to the dollar value/complexity of the specific contract for which they are designated. Contracting officers may exempt service contracts from this requirement when the following three conditions are met: (1) the contract will be awarded using simplified acquisition procedures; (2) the requirement is not complex; and (3) the contracting officer documents the file, in writing, why the appointment of a COR is unnecessary. Contracting officers also may designate a properly trained COR for contract actions other than those for services. The contracting officer shall include a copy of the written designation in the official contract file. A COR must maintain a file for each contract assigned. The file must include: (1) a copy of the contracting officer’s letter of designation and other documentation describing the COR’s duties and

responsibilities; and (2) documentation of actions taken in accordance with the delegation of authority.

DoD “Contractor Performance Assessment Reporting System” (CPARS) Policy Guide. The CPARS policy guide sets policy, assigns responsibilities and provides procedures for systematically assessing contractor performance as required by FAR, Part 42. The primary purpose of CPARS is to ensure that accurate data on contractor performance is current and available for use in source selections. Performance assessments will be used as a resource in awarding best value contracts and orders to contractors that consistently provide quality, on-time products, and services that conform to contractual requirements. CPARS can be used to effectively communicate contractor strengths and weaknesses to source selection officials.

Audit Results

Overall, contracting practices and internal controls at SSP were generally effective. SSP delegated responsibility to DCMA to perform quality assurance and responsibility for inspecting and accepting work performed for SSP contracts. In addition, SSP conducted quarterly management reviews, quarterly program reviews, and Monday morning meetings with contractors to monitor contractor performance. SSP also prepared justification and approvals for all 21 contracts reviewed, justifying the use of other than full and open competition in contracting. SSP rationale for using sole-source selection appeared reasonable as SSP determined that only a few contractors were able to provide the highly specialized nature of the supplies and services required. Lastly, contract files were orderly, thorough, and current. However, opportunities existed for SSP to improve its contracting practices by:

- Preparing QASPs, as required;
- Designating CORs, if necessary;
- Reporting on contractor performance and using past performance information in source selections;
- Assisting contractors in obtaining validated EVM systems;
- Helping contractors to obtain authorization to participate in the direct billing program; and
- Reviewing internal controls over contract administration as part of its management control program.

Sample Selection and Contracts Analyses

The audit universe consisted of contracts awarded and modifications issued in FYs 2007 and 2008 and reported in the Federal Procurement Data System-Next Generation (FPDS-NG). The universe included 350 contracts valued at \$3.47 billion. We used statistical sampling techniques in addition to judgmental sampling for our analysis of contracting practices at SSP. We evaluated the effectiveness of contracting practices and related internal controls by using dollar unit sampling to select a statistical sample of 38 contracts valued at \$3.26 billion from FPDS-NG. We then selected a judgmental sample of 21 contracts, including the 15 highest dollar value contracts and 6 additional contracts, valued at \$3.1 billion from the original sample for inclusion in the scope of our audit as shown in Exhibit D. Exhibit A provides the details of our sampling methodology.

For each contract, we discussed the contract status with contracting and program management personnel, determined the methods of surveillance, reviewed the QASP, reviewed documentation to support post award contract surveillance, and verified whether SSP prepared reports required by CPARS. In addition, we determined whether the contractor had an approved EVM system and was authorized to participate in the direct billing program.

Quality Assurance Surveillance Plan (QASP)

SSP did not prepare a QASP for 7 of the 21 contracts reviewed. DFARS Part 246, “General,” 12 May 2006, requires that DoD Components create and manage a cost-effective and systematic Government quality assurance program, including quality audits of products and services to verify that contract performance is in accordance with the requirements specified in the contract. In addition, FAR Subpart 46.4 requires that Government quality assurance be performed. FAR also requires that QASPs be prepared in conjunction with the statement of work. QASPs should specify all work requiring surveillance and the method of surveillance.

Overall, SSP provided evidence of surveillance for each of the 21 contracts we audited. This evidence included quarterly management reviews, quarterly program reviews, and Monday morning meeting minutes with contractors. SSP also issued the T-9001B, “Technical Program Management Requirements,” (dated 1 April 2006) which specifies management actions and technical disciplines for SSP contracts. These actions include management; design; reliability, availability, and maintainability; test programs; configuration management program; supplier management; production; and test and measuring equipment and standards. The T-9001B requires contractors to implement a quality control system to ensure that SSP quality requirements are met, and that the

contractor delivers supplies/services in conformance with contract specifications and requirements.

SSP often delegates quality assurance and responsibility for inspecting and accepting the work to the DCMA through letters of delegation between an SSP Program Management Office (PMO) and DCMA. This is outlined in Section E of SSP contracts. The letters of delegation directed DCMA to provide product quality status reports in accordance with the Interface Guidelines Document (IGD). The IGD includes the functions and responsibilities of the PMO, as well as DCMA's role as it interfaces with the PMO. The DCMA quality status reports included, as a minimum, performance data for the results of mandatory Government tests and inspections that result in rejects, Government contract quality assurance actions taken to verify products or services conform to contract quality requirements, and any additional data required for the contracting office or technical authority to verify the adequacy of contract quality requirements. For our audit, we considered the contract compliant with QASP requirements if the contract had a specific letter of delegation, as required by FAR Subpart 42.3, "Contract Administration Functions."

For each of the sampled contracts, we requested the QASP, as well as the letter of delegation, if applicable according to Section E of the contract. SSP was unable to provide a QASP or letter of delegation for 7 of the 21 contracts. Specifically:

- Two contracts, N00030-05-C-0015 and N00030-07-C-0015, indicated in Section E of the contract that quality assurance was to be delegated to DCMA. Both contracts are for support services and, according to SSP, were not overseen by a PMO office. Consequently, there was no letter of delegation. Since SSP officials did not delegate quality assurance to DCMA, they should have prepared a QASP for both contracts.
- Contract N00030-07-C-0045 is a Small Business Innovation Research contract. Section E of the contract states that inspection and acceptance is to be delegated to DCMA. SSP stated that inspection acceptance is actually completed by SSP technical representatives. A QASP was not prepared by SSP.
- Contract N00030-07-C-0010 split quality assurance between SSP and DCMA. SSP did not prepare a QASP and we could not determine if the letter of delegation provided, applied to that contract.
- Contract N00030-07-C-0009 stated that inspection and acceptance is to be performed only by SSP. SSP did not prepare a QASP. The technical representative indicated that quarterly management and quarterly program reviews take place in lieu of developing a formal QASP.
- Contract N00030-07-C-0012 delegated inspection and acceptance to DCMA. No letter of delegation or QASP was provided, and the location or actual existence of

the delegation letter is unknown. In addition, according to the contracting officer, SSP's ability to oversee technical performance as thoroughly as necessary was not in place. This contract has encountered cost overruns and schedule delays, and SSP has not been happy with the performance of the contractor. The Digital Signal Processor Upgrade efforts were poorly managed, resulting in significant cost and schedule overruns and de-scoped (reduced) systems requirements for end-product delivery. As of August 2009, one of two digital signal processors had not been validated.

- Contract N00030-08-C-0025 delegated inspection and acceptance to DCMA, according to Section E of the contract. According to SSP, the cognizant PMO had been working with DCMA to develop a letter of delegation. SSP did not finalize the letter. This contract has experienced schedule delays and, as of October 2009, was running a \$15.2 million cost overrun, despite originally being valued at \$33.9 million.

Without having a defined QASP before the start of contract performance, gaps in contract surveillance may occur; and a lack of assurance exists that services and goods will be in accordance with the terms of the contract. Additionally, without a proper QASP, contracting officials had no standards to determine whether supplies or services provided by contractors complied with contractual requirements, and no ability to stop the potential waste of Government time and money. SSP contracting officials should develop a QASP to accompany the performance work statements before performance begins.

Further, SSP should update the Interface Guidelines Document (IGD) to remain current with changing regulations and circumstances related to the PMOs' missions and functions. The IGD describes the 82 functions performed by SSP's PMOs. The IGD includes the functions and responsibilities of the PMO, as well as DCMA's role as it interfaces with the PMO. The PMOs and DCMA use the IGD as their guide when developing letters of delegation and the letters direct DCMA to perform quality assurance in accordance with the IGD. The IGD was last updated 18 March 1993. In reviewing the IGD, we found instances of outdated terminology, external references, and FAR references used. For example, DCMA is referred to by its old name, Defense Contract Management Command. The IGD also uses as an external reference NAVMAT P5243 in relation to Cost/Schedule Control Systems Criteria (C/SCSC). Both of these are outdated, as NAVMAT refers to the defunct Naval Materiel Command, and C/SCSC has been replaced by EVM. Finally, the IGD references clauses in FAR that can not be found today. On such example is FAR Clause 52.245-18, which refers to acquisition or fabrication of special test equipment. As of January 2010, this clause cannot be found in FAR.

Contracting Officer Representative (COR)

SSP designated a COR for just 1 of the 21 contracts audited. Specifically, 20 of the 21 contracts we audited did not have CORs assigned, although all had technical representatives who considered themselves “defacto” CORs. In September 2008, SSP recognized that the lack of CORs on its service contracts was an issue that needed to be resolved. Consequently, SSP implemented policy to require that CORs be appointed for all contracts awarded on or after 1 October 2008 (FY 2009).

According to DFARS 201.602, contracting officers may designate qualified personnel as their authorized representatives to assist in the technical monitoring or administration of a contract. A COR is an individual designated and authorized in writing by the contracting officer to perform specific technical or administrative functions. The individual must:

- Be a Government employee, unless otherwise authorized in agency regulations; and
- Have training and experience commensurate with the COR responsibilities in accordance with department/agency guidelines.

For one of the contracts we audited, the lack of monitoring of a COR had a negative impact. For example, Contract N00030-08-C-0025 had a \$15 million overrun and significant schedule delays. The Contracting Officer Representative is a key player in monitoring the Inspection of Work, Technical Progress Reports, Technical Direction, and Constructive Changes. The COR’s role is vital in ensuring successful contract completion.

While SSP’s proactive policy is commendable, it still does not negate the issues with contract administration over SSP contracts awarded before FY 2009. Specifically, the technical representatives for the 21 contracts we audited had not been designated as CORs by the contracting officers to perform specific technical or administrative functions, and they did not have training such as Defense Acquisition Workforce Improvement Act Level II certification training or Defense Acquisition University COR Training. To improve this issue, the SSP head of contracts should retroactively appoint CORs for each of the SSP contracts awarded prior to FY 2009, and ensure the CORs are properly trained to execute their assigned duties.

Contractor Performance Assessment Reporting System (CPARS)

SSP did not comply with CPARS reporting requirements for 6 of the 19 contracts that required CPARS reporting. The principal causes for this issue included system problems, no assignment of responsibility for CPARS completion, no specification or enforcement of requirements, and misapplication of policy. Also, in one case the program manager

indicated that a CPARS report had been completed, but no report was provided when requested.

FAR Part 42 requires that contractor performance information be collected and used in source selection evaluations. CPARS is the DoD Enterprise Solution for collection of contractor past performance information. CPARS is a web-enabled application that collects and manages a library of automated contractor report cards, which assess a contractor's performance and provides a record, both positive and negative, on a given contract for a specific period of time. The primary purpose of CPARS is to ensure that accurate data on contractor performance is current and available for use in source selections. Performance assessments will be used as a resource in awarding best value contracts and orders to contractors that consistently provide quality, on-time products and services that conform to contractual requirements. Conversely, the results may be a consideration in deciding not to award a contract

According to the CPARS policy guide, CPARS reporting is required for all systems and operation support contracts valued over \$5 million, and for services contracts valued over \$1 million. Of the 21 contracts we reviewed, 19 met the thresholds for CPARS reporting. We determined that all of the contracts reviewed were systems, operations support, or service contracts.

We requested the most recent CPARS report for the 19 applicable contracts. SSP prepared reports for 13 of the contracts, as summarized in Exhibit D. To improve contractor performance reporting, the Head of Contracting, SSP should direct program managers to prepare CPARS reports in a timely manner, as required. This will ensure that accurate data on contractor performance is current and available for use in source selections. Further, the absence of CPARS reports increases the risk that contractors who perform poorly in such areas as quality, cost, and schedule may be awarded contracts.

Earned Value Management (EVM) System

DCMA had not approved the EVM systems on four contracts reviewed that met the threshold for use of EVM. DFARS Subpart 234.2 requires that, for cost or incentive contracts valued at \$50 million or more, the contractor must have an EVM system that the DCMA has determined is compliant with guidelines in ANSI/EIA-748. Each of the four contracts exceeded \$50 million. SSP awarded two of the four contracts to one contractor. Officials with SSP and DCMA were aware of the requirement for a validated EVM system. Due to DCMA's backlog, EVM systems' validations were set "for the future." Our audit scope did not include an assessment of integrated validation reviews or the use of DCMA surveillance to ensure cost, schedule and performance data reliability.

EVM system guidelines provide the basis for determining whether contractors' EVM systems are acceptable. The guidelines were intended to assist contractors in providing reliable performance data to the buying activity. Guidelines are defined in ANSI/EIA-748. Application of the EVM system guidelines ensures that contractors have adequate management systems that integrate cost, schedule and technical performance. EVM is a tool that allows both Government and contractor managers to monitor contract progress.

Once DCMA approves the contractor's EVM system, the approval applies to all contracts awarded to that contractor. DCMA does not have to validate EVM systems for individual contracts. Although DCMA has not validated the EVM systems, the contractors provided contract performance reports monthly. SSP program managers rely heavily on these contractor reports to monitor contract progress. It is imperative that the reports are accurate and reliable. DCMA validation of the EVM systems would improve the reliability of the of contractor reports by providing better overall planning and control discipline on Government contracts. EVM enables the program manager to determine the value of work completed and to project trends.

We reviewed the efforts contractors took to obtain a validated system and found that the contractors took the necessary steps to schedule a validation review. SSP management informed us that it takes several months for DCMA to validate an EVM system. SSP should take proactive measures to help contractors obtain EVM system validation. We recognize that EVM system approval is a DCMA function, and that SSP has a limited role in the validation process. Nonetheless, to improve the reliability of contract or performance reports, the Head of Contracting, SSP should coordinate with DCMA and contractors to ensure that DCMA validates the contractors EVM systems.

Defense Contract Audit Agency (DCAA) Direct Billing Authority

DCAA rescinded direct billing authorization for 6 of 21 contracts. Within DoD, DFARS 242.803 delegates the authority to review and approve payments on contractors' vouchers under cost reimbursement contracts to DCAA. DCAA authorizes contractors to submit interim vouchers directly to Defense Finance and Accounting Service for payment when DCAA has approved the contractors' billing systems. It is beneficial for contractors' to bill Defense Finance and Accounting Service directly for supplies and services provided to simplify the voucher approval process and to expedite payments. In cases where the contractor has implemented a new billing system, or significantly revised its existing system, DCAA must audit the new system or system changes. Contractors are granted authorization for direct billing based on DCAA approval of the contractors' billing system. The main reasons DCAA rescinded direct billing authorizations were that the contractors either implemented a new billing system or made significant changes to their existing system, and DCAA had not audited and approved the system.

As a result of the rescissions of direct billing authority by DCAA, contractors were required to submit public vouchers and supporting documentation to the applicable DCAA office for approval. We verified whether contractors complied with interim procedures and evaluated the interim process for approving vouchers. We reviewed the two most recent cost vouchers approved and disbursed for the contractors instructed to submit interim vouchers. In addition, we discussed the DCAA process for reviewing and approving interim vouchers. We reviewed the vouchers and related documentation to verify whether DCAA appropriately approved the cost vouchers. We concluded that contractors properly submitted cost vouchers to DCAA, as required. Further, DCAA procedures for approving interim vouchers were sufficient and DCAA appropriately reviewed the interim vouchers. The interim process is manual, however, which increases the risk for improper payments.

To improve the contractor billing process and reduce the risk of improper payments, the Head of Contracting, SSP should coordinate with DCAA to assist contractors in obtaining approved billing systems.

Management Control Program Review

We reviewed management control procedures related to contracting practices at SSP because we were concerned whether SSP provided sufficient contract oversight for the contracts included in our sample. Specifically, we reviewed the SSP surveillance self-evaluation applicable to management controls and the FY 2008 Annual Statement of Assurance.

We found that SSP did not include contract administration as an assessable unit in its management control program. Because the DON FY 2009 Risk and Opportunity Assessment Report identified contract administration procedures as a “high-risk area,” SSP should include the review of internal controls over contract administration in its management control program.

Further, DoD Instruction 5010.40, “Managers’ Internal Control (MIC) Program Procedures,” 4 January 2006, requires DoD organizations to implement a comprehensive system of internal controls that provides reasonable assurance that programs are operating as intended and to evaluate the effectiveness of the controls. We identified weaknesses that SSP needs to address in order to improve its managing and administering of contracts. Specifically, SSP contracting officials did not:

1. Designate CORs for 20 contracts reviewed;
2. Prepare QASPs for 7 contracts reviewed;
3. Prepare contractor performance reports for 6 contracts; and
4. Add contract administration as part of its Managers Internal Control program.

In addition:

1. DCMA had not approved the EVM system for 3 contractors; and
2. DCAA rescinded direct billing authorization for 6 contracts.

The principal effects of the conditions noted above were potential schedule delays, cost overruns, and poor contractor performance. In addition, these conditions could lead to inefficient use of resources and deprived SSP of needed services. Other potential effects included noncompliance with contract regulations and weakened safeguards against waste and loss of assets.

Based on our audit work, we concluded that contracting practices and internal controls at Strategic Systems Programs (SSP) were generally effective to ensure that DON received services for which it paid. However, opportunities for improvement do exist as cited in this report. SSP should assist contractors to obtain compliant EVM systems and authorization to participate in the direct billing program. Additionally, SSP should include the review of internal controls for contract administration as part of its Management Control Program.

Recommendations and Corrective Actions

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

We recommend that the Director, SSP:

Recommendation 1. Prepare a QASP for each contract meeting the criteria as required and document surveillance in accordance with FAR 46 Subpart 46.4.

Management response to Recommendation 1. SSP will ensure that a QASP is prepared for each contract in accordance with FAR and DFARS. The QASP will be prepared in conjunction with the statement of work and will clearly identify all work requiring surveillance and the method of surveillance. SSP will ensure that each contract for which quality assurance has been delegated to DCMA will be documented through a Letter of Delegation between SSP and DCMA delineating the roles and responsibilities of each organization. To ensure a QASP is included in every contract action, the QASP document will be added as a mandatory item to SSP's electronic purchase request system, and a new data item description, "QASP document complete," will be added to SSP's Contract Action Tracking System. No contract will be executed until the contracting officer verifies that the required QASP and Letter of Delegation have been completed. These actions will be completed 30 September 2010.

Naval Audit Service comment on response to Recommendation 1. SSP's response meets the intent of the recommendation. Further, the corrective actions SSP plans to implement by 30 September 2010 will strengthen internal controls over contract surveillance. By making the QASP a mandatory item in SSP's electronic purchasing system, by adding the QASP as a new requirement to complete in SSP's contract tracking system, and by requiring the Contracting Officer to verify that the required QASP has been completed, SSP will ensure that a QASP is included on all contracts, as required.

Recommendation 2. Appoint CORs for each contract in writing and ensure the CORs are properly trained.

Management response to Recommendation 2. Prior to the audit, SSP recognized this weakness in its surveillance program. On 5 September 2008, the Head of Contracts (SPN) issued SPN Note 201, which provides requirements and guidance regarding the training and appointment of CORs. At the initiation of the purchase request and prior to contract award, the technical branches are required to nominate a candidate to serve as COR for the individual contract. Prior to appointment, the contracting officer is required to verify that the nominee is a Government employee and has completed the required training. To ensure compliance with this requirement, COR documentation (nomination letter and designation memorandum) has been added to SSP's electronic purchase request system. Also, a new data item description, "COR Assignment," has been added to the SSP Contract Action Tracking System. No service contract will be executed until the contracting officer verifies that a properly trained COR has been assigned. Finally, since a number of SSP's contracts executed prior to FY 2009 have ongoing requirements, the Head of Contracts will ensure that CORs are assigned for all existing contracts for which performance has not yet been completed. These actions shall be completed by 30 September 2010.

Naval Audit Service comment on response to Recommendation 2. Actions taken and planned meet the intent of the recommendation.

Recommendation 3. Establish internal controls and provide oversight to ensure that CPARS reports are prepared in a timely manner for all contracts requiring them.

Management response to Recommendation 3. SSP's requirements and responsibilities for collection, processing, protection, and retention of contractor past performance information are stated in SSP Instruction 4280.10, dated 29 June 2001. To ensure that CPARS reports are prepared in a timely and accurate manner, the Head of Contracts will analyze SSP's current CPARS process and implement improvements to ensure CPARS are prepared for each contract for systems and operating support contracts over \$5 million, and each

contract for services over \$1 million. An initial analysis has revealed that the current CPARS process lacks individual accountability and that workflows are complex and generally not understood by stakeholders. To rectify this, several actions have been initiated. First, redundant reviews of CPARS reports have been eliminated to reduce process time. Second, fields within CPARS have been unlocked to allow the reviewer to correct minor typographical and grammatical errors, avoiding time-consuming rework and rerouting. Additionally, a revision to the CPARS SSP Instruction is in process and, once completed, command-wide training will be held. Finally, SPN has taken ownership of the CPARS process and will be held accountable for timely initiation and completion of CPARS reporting. To raise awareness throughout the contracting community, SPN will issue guidance requiring the status of past CPARS to be addressed in all business clearances. These corrective actions will be completed by 30 September 2010.

Naval Audit Service comment on response to Recommendation 3. Actions planned meet the intent of the recommendation.

Recommendation 4. Coordinate with DCMA to establish approved EVM systems for applicable contracts.

Management response to Recommendation 4. SSP will take proactive measures to influence DCMA to validate timely the contractors' EVM systems, but SSP does not have direct authority over DCMA. SSP will revise its EVM instruction and Integrated Baseline Review Handbook and stress the criticality of EVM validation to our Navy Program Management Offices and our individual partners. SSP will coordinate with the Navy Center for Earned Value Management to identify SSP's priority of contractors for EVM system validation. These corrective actions will be completed by 29 July 2010.

Naval Audit Service comment on response to Recommendation 4. Actions planned should address the problem with timely validation of EVM systems discussed in the report and meet the intent of the recommendation.

Recommendation 5. Coordinate with DCAA to assist contractors with obtaining direct billing authority.

Management response to Recommendation 5. The billing systems for all of the contractors identified in the Naval Audit Service draft report (except one) have been approved and direct billing authority has been authorized. The Head of Contracts (SPN) will continue to monitor the billing status of SSP contractors and assist its contractors in obtaining expeditious approval of billing systems. To assist in this, SPN will work closely with DCAA. Additionally, all negotiators will be instructed to discuss the status of the contractor's billing system in all

business clearances. These corrective actions commenced immediately and will continue as an ongoing activity.

Naval Audit Service comment on response to Recommendation 5. Actions taken and ongoing meet the intent of the recommendation. We consider this recommendation to be closed.

Recommendation 6. Include contract administration as an assessable unit in SSP's Managers Internal Control program and ensure internal controls are in place for contract administration in all future reviews.

Management response to Recommendation 6. SSP has included contract administration as an assessable unit in the SSP Managers Internal Control program. This will be officially promulgated in our next SSP Notice that requests certification statements from assessable units. As a function of the contract administration assessable unit, SSP will ensure that key controls are in place that report on the success of designating CORs and ensure that QASP and contractor performance reports are evaluated to ensure the effectiveness of the Managers Internal Control program controls. SSP reports annually a Managers Internal Control Certification Statement to the Chief of Naval Operations in accordance with the Federal Managers' Financial Integrity Act. These corrective actions will be completed by 30 June 2010.

Naval Audit Service comment on response to Recommendation 6. Actions taken and planned meet the intent of the recommendation.

Recommendation 7. Provide oversight to ensure that actions discussed in Recommendations 1 through 6 are implemented timely.

Management response to Recommendation 7. In accordance with the corrective actions plan of action and milestones, SSP has scheduled monthly oversight reviews to be chaired by the SSP Comptroller to ensure progress toward completing milestones is being made timely. SSP will provide final notification to the Naval Audit Service that all recommendations were implemented by 8 October 2010.

Naval Audit Service comment on response to Recommendation 7. Actions planned meet the intent of the recommendation.

Section B:

Status of Recommendations

Recommendations							
Finding ¹	Rec. No.	Page No.	Subject	Status ²	Action Command	Target or Actual Completion Date	Interim Target Completion Date ³
1	1	16	Prepare a QASP for each contract meeting the criteria as required and document surveillance in accordance with FAR 46 Subpart 46.4.	O	Director, Strategic Systems Programs (SSP)	9/30/10	
1	2	17	Appoint CORs for each contract in writing and ensure the CORs are properly trained.	O	Director, SSP	9/30/10	
1	3	17	Establish internal controls and provide oversight to ensure that CPARS reports are prepared in a timely manner for all contracts requiring them.	O	Director, SSP	9/30/10	
1	4	18	Coordinate with DCMA to establish approved EVM systems for applicable contracts.	O	Director, SSP	7/29/10	
1	5	18	Coordinate with DCAA to assist contractors with obtaining direct billing authority.	C	Director, SSP	4/8/2010	
1	6	19	Include contract administration as an assessable unit in SSP's Managers Internal Control program and ensure internal controls are in place for contract administration in all future reviews.	O	Director, SSP	6/30/10	
1	7	19	Provide oversight to ensure that actions discussed in Recommendations 1 through 6 are implemented timely.	O	Director, SSP	10/8/10	

¹ / + = Indicates repeat finding.

² / 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.

³ If applicable.

Scope and Methodology

Audit Scope

We conducted the audit from 12 May 2009 to 9 March 2010. Our audit focused on gathering, reviewing, and assessing contractual and programmatic documentation to verify that contracting practices for Strategic Systems Programs (SSP) were effectively and efficiently managed in accordance with applicable laws and regulations.

Statistical Sampling

We used statistical sampling techniques in addition to judgmental sampling for our analysis of contracting practices at SSP. To lend credibility and credence to the results of this analysis, we used the expert advice and assistance of the Naval Audit Service (NAVAUDSVC) statistician to obtain our sample of 21 contracts. These 21 contracts are valued at \$3.11 billion, and were active in Fiscal Year (FY) 2007 and/or FY 2008.

- The universe for SSP contracting included 350 contracts valued at approximately \$3.47 billion from the period FYs 2007 through 2008. With assistance from the NAVAUDSVC statistician, we initially selected 38 contracts for review, valued at approximately \$3.25 billion. We used a dollar unit sampling plan in order to provide a projection over the percent of dollars affected by each error type. However, due to the circumstances described in the following paragraph, we did not make a projection.
- From a universe of contracting actions at SSP in FYs 2007 and 2008, we obtained our sample of 21 contracts valued at \$3.11 billion. Specifically, during field work, we continued to encounter the same issues with each contract. Due to time constraints and limited benefits of reviewing all 38 contracts, we reduced the sample to 21 contracts. We selected a judgmental sample, including the 15 highest dollar value contracts and six additional contracts for a total of 21 contracts to increase our efficiency. We asked the NAVAUDSVC statistician to comment on our revised sampling plan. The statistician concurred with our judgmental sample, since it covers a large percentage (89 percent) of the dollar value of the universe. Appendix D shows the 21 contracts included in our audit.

Reliability of Computer Processed Data. We relied on computer generated data from the Federal Procurement Data System – Next Generation (FPDS-NG) to obtain the universe, but performed no general or applications control tests on the system. However, we performed limited testing to determine the reasonableness of the data presented, by comparing the data in the system to source documentation provided by the customer.

Audit Methodology

We conducted our audit at SSP Headquarters in Arlington, VA and at SSP Program Management Office (PMO) in Sunnyvale, CA.

For each of the 21 contracts, we examined the contract files, including the statement of work, justification and approval, business clearance memorandum, and inspection and acceptance sections to gain an understanding of the basics of the contract, as well as the procedures for inspecting and accepting the work performed.

We interviewed procuring contracting officers and program managers to determine the status of each contract and the methods of surveillance implemented by SSP. We requested documentation from SSP officials showing contract surveillance, including quality assurance surveillance plans, letters of delegation, memorandums of agreement, and Department of Defense 250s (DD250s). To determine the extent of surveillance, we reviewed these documents and others provided by SSP. Additionally, we contacted the administrative contracting officer for each contract to confirm the contract's status. We also contacted representatives from the Defense Contract Audit Agency (DCAA) to determine if the contractors were authorized to participate in the Direct Billing program, and if not, the extent to which their vouchers were reviewed.

In order to verify cost and schedule status of the sampled contracts, we requested and reviewed Earned Value Management (EVM) reports. In addition, we determined if contractors' EVM systems were validated by the Defense Contract Management Agency (DCMA), if required.

To verify that SSP is satisfactorily collecting and reporting on contractor performance, we requested and reviewed Contractor Performance Assessments Reporting Systems (CPARS) reports for the sampled contracts.

We evaluated internal controls, including the Managers' Internal Control Program, internal review schedule, and statement of assurance. We also evaluated SSP's ethics program, for which we found no significant issues. We determined that the command had an effective ethics program that met the requirements of Joint Ethics Regulation Department of Defense 5500.7-R.

This audit was conducted 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.

We reviewed Naval Audit Service, Department of Defense Inspector General, and General Accountability Office, and found there were no reports published in the past five years covering contracting practices at SSP. Therefore, no followup was required.

Exhibit B:

List of Acronyms

ASN (RD&A)	Assistant Secretary of the Navy (Research, Development, and Acquisition)
COR	Contracting Officer Representative
CPARS	Contractor Performance Assessment Report
DCAA	Defense Contract Audit Agency
DCMA	Defense Contract Management Agency
DFARS	Defense Federal Acquisition Regulation Supplement
DoD	Department of Defense
DON	Department of the Navy
EVM	Earned Value Management
FAR	Federal Acquisition Regulation
FPDS-NG	Federal Procurement Data System-Next Generation
FY	Fiscal Year
IGD	Interface Guidelines Document
PMO	Program Management Office
QASP	Quality Assurance Surveillance Plan
ROA	Risk and Opportunity Assessment
SSP	Strategic Systems Programs

Exhibit C:

Organizations Visited or Contacted

Department of Navy

Strategic Systems Programs Headquarters, Arlington, VA
Program Management Office Strategic Systems Programs Flight Systems,
Sunnyvale, CA

Other Defense Organizations

Defense Contract Audit Agency (DCAA)

North Carolina Branch, McLeansville, NC; Upstate New York Branch, Buffalo, NY;
BAE Systems Rockville Branch, Rockville, MD; Boston Branch, Boston, MA;
Springfield Branch, Springfield, VA; Santa Ana Branch, Santa Ana, CA; Peninsula
Branch, Sunnyvale, CA; East Bay Branch, Fremont, CA; Tampa Bay Branch,
Tampa, FL; New York Branch, New York, NY

Defense Contract Management Agency (DCMA)

Northern California; Lockheed Martin Sunnyvale, CA; Maryland, Baltimore, MD;
Boston, MA; Magna, UT; Boeing C3 Networks; Huntington Beach, CA; BAE
Systems Resident Office, Rockville, MD; Irvine, CA; St. Petersburg, FL; Long Island
Mitchel Field, NY

Exhibit D:

Audit Results

No.	Contract Number	Description of Supplies/Services	FY 07 & 08 Total Value	COR Appointed	QA Plan Prepared	Evidence of Surveillance	CPARS Required	CPARS Prepared	EVMS Required	EVMS Validated	Direct Billing Rescinded
1	N0003008C0041	Fire Control Systems Support	101,509,549			Y	Y		Y	N	Y
2	N0003007C0006	Underwater Launcher System	115,015,697			Y	Y	Y	Y		
3	N0003007C0009	US/UK Systems Integration	145,146,150		N	Y	Y		Y	N	Y
4	N0003008C0010	Guidance System Repair and Support	307,344,855			Y	Y	Y	Y	N	
5	N0003007C0001	OMNIBUS Guidance System Support	587,562,396			Y	Y	Y	Y	N	
6	N0003007C0100	Guided Missile Components/Engineering Services	711,956,730			Y	Y	Y	Y		
7	N0003006C0100	Guided Missile Components/Engineering Services	839,504,269			Y	Y	Y	Y		
8	N0003007C0002	Navigation System Technical Support	41,506,325			Y	Y	Y			
9	N0003005C0015	Nuclear Weapons Security Program Support	20,152,999		N	Y	Y	Y			
10	N0003008C0006	Flight Test Operations	29,989,405			Y	Y	Y			
11	N0003007C0012	Data Processing Support for the Flight Test Program	7,566,338		N	Y	Y	Y			
12	N0003007C0010	Flight Test Planning and Instrumentation	27,648,301		N	Y	Y				
13	N0003007C0045	Small Business Research and Development	599,936		N	Y	NA				
14	N0003002C0013	Guidance System Engineering Services	177,088			Y	Y	Y			
15	N0003007E0042	Demolition of 2 Buildings	1,000,000			Y	NA				
16	N0003006C0005	Navigation System Technical Support	42,271,305			Y	Y	Y			Y
17	N0003005C0051	Fire Control OMNIBUS Contract	41,448,590			Y	Y	Y			Y
18	N0003007C0015	Management and Budget Support Services	4,416,121	Y	N	Y	Y				
19	N0003008C0025	Development of Defensive Weapon System for SSBN	33,938,132		N	Y	Y				Y
20	N0003008C0002	Navigation Systems Backfit Engineering Services	48,178,064			Y	Y	Y			Y
21	N0003008C0027	Propulsion Performance Assessment	4,258,573			Y	Y				
Totals			3,111,190,823	1	7	21	19	13	7	4	6

Appendix:

Management Response From Strategic Systems Programs



DEPARTMENT OF THE NAVY

STRATEGIC SYSTEMS PROGRAMS
2521 SOUTH CLARK STREET SUITE 1000
ARLINGTON, VA 22202-3630

IN REPLY REFER TO:
7100
SP13/01
Ser U040710000
08 APR 2010

From: Director, Strategic Systems Programs

To: Auditor General of the Navy, Naval Audit Service, Department of the Navy,
1006 Beatty Place SE, Washington Navy Yard, DC 20374-5005

Subj: CONTRACTING PRACTICES FOR STRATEGIC SYSTEMS PROGRAMS
(DRAFT AUDIT REPORT N2009-NAA00-0046)

Ref: (a) NAVAUDSVC Memo 7510 N2009-NAA00-0046 of 9 March 2010

Encl: (1) SSP Contracting Practices Corrective Action POA&M

1. Strategic Systems Programs (SSP) has reviewed and concurs with the seven Naval Audit Service recommendations reported in reference (a). Enclosure (1) provides the SSP Contracting Practices Corrective Action Plan of Action & Milestones (POA&M) necessary to address the seven recommendations identified in the audit report.

2. Recommendation 1 - Prepare a QASP for each contract meeting the criteria as required and document surveillance in accordance with FAR 46 Subpart 46.4.

Response: SSP will ensure that a Quality Assurance Surveillance Plan (QASP) is prepared for each contract in accordance with FAR 46.4 and DFARS 246. The QASP will be prepared in conjunction with the statement of work and will clearly identify all work requiring surveillance and the method of surveillance. SSP will ensure that each contract for which quality assurance has been delegated to the Defense Contract Management Agency (DCMA) will be documented through a Letter of Delegation between the SSP Program Management Office (PMO) and DCMA delineating the roles and responsibilities of each organization. To ensure QASP is included in every contract action, the QASP document will be added as a mandatory item to SSP's electronic Purchase Request (PR) system, E2E (End-to-End). In Addition, a new Data Item Description (DID) will be added to the SSP Contract Action Tracking System (CATS), entitled "QASP document complete". No contract will be executed until the Contracting Officer verifies that the required QASP and Letter of Delegation have been completed. These actions will be completed 30 September 2010.

Subj: CONTRACTING PRACTICES FOR STRATEGIC SYSTEMS PROGRAMS (DRAFT
AUDIT REPORT N2009-NAA00-0046)

3. Recommendation 2 – Appoint CORs for each contract in writing and ensure the CORs are properly trained.

Response: Prior to the audit, SSP recognized this weakness in its surveillance program. On 05 September 2008 the Head of Contracts issued SPN Note 201, "Appointment of Contracting Officer Representatives (CORs) for Service Contracts." The SPN Note provides requirements and guidance regarding the training and appointment of CORs. At initiation of the Purchase Request (PR) and prior to contract award the technical branches are required to nominate a candidate to serve as COR for the individual contract. Prior to appointment, the Contracting Officer is required to verify that the nominee is a Government employee and has completed the required training. In order to ensure compliance with this requirement COR documentation (nomination letter and designation memorandum) has been added to SSP's electronic PR system. Additionally, a new Data Item Description (DID) has been added to the SSP CATS, entitled "COR Assignment". No service contract will be executed until the Contracting Officer verifies that a properly trained COR has been assigned. Finally, since a number of SSP's contracts executed prior to FY 2009 have on-going requirements, The Head of Contracts (SPN) will ensure that CORs are assigned for all existing contracts for which performance has not yet been completed. These actions shall be completed by 30 September 2010.

4. Recommendation 3 – Establish internal controls and provide oversight to ensure that CPARS reports are prepared in a timely manner for all contracts requiring them.

Response: SSP's requirements and responsibilities for the collection, processing, protection, and retention of contractor past performance information are stated in SSPINST 4280.10 dated 29 June 2001. In order to ensure that CPARS reports are prepared in a timely and accurate manner, the Head of Contracts (SPN) will analyze SSP's current CPARS process and implement improvements to ensure CPARS are prepared for each contract for systems and operating support contracts over \$5 million and each contract for services over \$1 million dollars. An initial analysis has revealed that the current CPARS process lacks individual accountability and that workflows are complex and generally not understood by the stakeholders. In order to rectify this situation several actions have already been initiated. First, redundant reviews of CPARS reports have been eliminated to reduce the time required to process CPARS. Second, fields within the CPARS form previously locked to everyone other than the Program Manager have been unlocked to allow the reviewer to correct minor typographical and grammatical errors, avoiding time consuming rework and rerouting. Additionally, a revision to the CPARS SSPINST is in process and once completed command-wide training will be held. Finally, SPN has taken ownership of the CPARS process and will be held accountable for the timely initiation and completion of CPARS reporting. In order to raise awareness throughout the contracting community SPN will issue guidance requiring the status of past CPARS be addressed in all business clearances. These corrective actions will be completed by 30 September 2010.

Subj: CONTRACTING PRACTICES FOR STRATEGIC SYSTEMS PROGRAMS (DRAFT
AUDIT REPORT N2009-NAA00-0046)

5. Recommendation 4 – Coordinate with DCMA to establish approved EVM systems for applicable contracts.

Response: SSP (a Navy agency) will take proactive measures to influence DCMA (a Defense agency) to validate timely the contractors Earned Value Management (EVM) systems, but the Naval Audit Service should be aware that SSP does not have direct authority over DCMA. SSP will revise its EVM instruction and Integrated Baseline Review (IBR) Handbook and stress the criticality of EVM validation to our Navy Program Management Offices (PMOs) as well as our industrial partners. SSP will coordinate with the Navy Center for Earned Value Management (CEVM) to identify SSP's priority of contractors for EVM system validation. These corrective actions will be completed by 29 July 2010.

6. Recommendation 5 - Coordinate with DCAA to assist contractors with obtaining direct billing authority.

Response: The billing systems for all of the contractors identified in the Naval Audit Service Draft Report (except BAE Systems) have been approved and direct billing authority has been authorized. The Head of Contracts (SPN) will continue to monitor the billing status of SSP contractors and assist its contractors in obtaining expeditious approval of billing systems. To assist in accomplishing this objective SPN will work closely with the DCAA liaison auditor to SSP. Additionally, all negotiators will be instructed to discuss the status of the contractor's billing system in all business clearances. These corrective actions commenced immediately and will continue as an on-going activity.

7. Recommendation 6 – Include contract administration as an assessable unit in SSP's Managers Internal Control program and ensure internal controls are in place for contract administration in all future review.

Response: SSP has included contract administration as an assessable unit in the SSP Managers Internal Control (MIC) program. This will be officially promulgated in our next SSP Notice (SSPNOTE) that requests certification statements from assessable units. As a function of the contract administration assessable unit, SSP will insure that key controls are in place that report on the success of designating CORs and ensure that QASP and contractor performance reports are evaluated to ensure the effectiveness of the MIC program controls. SSP reports annually a Managers' Internal Control Certification Statement to the Chief of Naval Operations (CNO) in accordance with the Federal Managers' Financial Integrity Act (FMFIA). These corrective actions will be completed by 30 June 2010.

Subj: CONTRACTING PRACTICES FOR STRATEGIC SYSTEMS PROGRAMS (DRAFT
AUDIT REPORT N2009-NAA00-0046)

8. Recommendation 7 – Provide oversight to ensure that actions discussed in recommendations 1 through 6 are implemented timely.

Response: In accordance with the corrective actions POA&M, enclosure (1), SSP has scheduled monthly oversight reviews to be chaired by the SSP Comptroller to ensure progress toward completing milestones is being made timely. SSP will provide final notification to the Naval Audit Service that all recommendations were implemented by 8 October 2010.

9. The SSP point of contact for this audit is [REDACTED] who can be reached at [REDACTED] or email [REDACTED]

FOIA (b)(6)

[REDACTED]

FOIA (b)(6)

SSP Contracting Practices Corrective Action POA&M																		
ID	Task Name	Duration	Start	Finish	2010	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov
1	NAS Audit Report N2009-NA000-0046 Contracting Practices Project Status Review	132 days	Thu 4/8/10	Fri 10/8/10														
2	Monthly review	91 days	Fri 4/30/10	Fri 9/3/10														
3	Monthly review	2 days	Fri 4/30/10	Mon 5/3/10														
4	Monthly review	2 days	Wed 6/2/10	Thu 6/3/10														
5	Monthly review	2 days	Thu 7/1/10	Fri 7/2/10														
6	Monthly review	2 days	Mon 8/2/10	Tue 8/3/10														
7	Monthly review	2 days	Thu 9/2/10	Fri 9/3/10														
8	Recommendation 1 - QASP	126 days	Thu 4/8/10	Thu 9/30/10														
9	QASP and Letter of Delegation documents added to EZE template	17 days	Thu 4/8/10	Fri 4/30/10														
10	QASP DID added to CATS checklist	39 days	Thu 4/8/10	Tue 6/1/10														
11	Initial CO verification of a QASP and Letters of Delegation for all Future contracts	82 days	Thu 4/8/10	Fri 7/30/10														
12	Final CO verification of QASP and Letters of Delegation for all Future contracts	126 days	Thu 4/8/10	Thu 9/30/10														
13	Recommendation 2 - CORs	126 days	Thu 4/8/10	Thu 9/30/10														
14	Identify existing contracts for which CORs need to be assigned	17 days	Thu 4/8/10	Thu 4/30/10														
15	Identify all Future contracts for which CORs need to be assigned	32 days	Thu 4/8/10	Fri 5/21/10														
16	Identification of specific CORs for each contract	37 days	Thu 4/8/10	Fri 5/28/10														
17	COR Training complete	102 days	Thu 4/8/10	Fri 8/27/10														
18	COR designation by Contracting Officer complete	126 days	Thu 4/8/10	Thu 9/30/10														
19	Recommendation 3 - Int Ctrl and CPARS	126 days	Thu 4/8/10	Thu 9/30/10														
20	Workflow for processing CPARS revised	1 day	Thu 4/8/10	Thu 4/8/10														
21	Data fields opened to CPARS reviewer	1 day	Thu 4/8/10	Thu 4/8/10														
22	SSPINST 4280.10 revised	80 days	Thu 4/8/10	Wed 6/30/10														
23	CPARS training completed	104 days	Thu 4/8/10	Tue 8/31/10														
24	All CPARS actions in "Current" status	126 days	Thu 4/8/10	Thu 9/30/10														

Project: SSP Contract Practices POA; Date: Wed 4/7/10

Legend: Task (blue bar), Split (dotted line), Milestone (diamond), Summary (thick bar), Project Summary (grey bar), External Tasks (grey bar), External Milestone (grey diamond), Inactive Task (yellow dot)

Page 1

Enclosure (1)

SSP Contracting Practices Corrective Action POA&M													
ID	Task Name	Duration	Start	Finish	2010	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter				
					Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov
25	Recommendation 4 - EVMS Validation	80.5 days	Thu 4/8/10	Thu 7/29/10									
26	Coordinate with DCMA	80.5 days	Thu 4/8/10	Thu 7/29/10									
27	SSP Internal Actions	40 days	Thu 4/8/10	Wed 6/2/10									
28	Revise SSP EVM Instruction (7720.4)	40 days	Thu 4/8/10	Wed 6/2/10									
29	Revise SSP IBR Handbook	20 days	Thu 4/22/10	Wed 5/19/10									
30	Draft SP20 memo for Branch Heads	0 days	Wed 5/19/10	Wed 5/19/10									
31	Draft DIRSSP letter for industrial partners	2 days	Thu 5/20/10	Fri 5/21/10									
32	Brief Branch Heads on criticality of validation	2 days	Mon 5/24/10	Tue 5/25/10									
33	Coordinate with Navy CEVM	80.5 days	Thu 4/8/10	Thu 7/29/10									
34	Identify SSP's priority of contractors for validation	0.5 days	Thu 4/8/10	Thu 4/8/10									
35	Draft DIRSSP letter for CEVM	3 days	Thu 4/8/10	Tue 4/13/10									
36	Request assistance from CEVM	0.5 days	Thu 4/8/10	Thu 4/8/10									
37	Follow-up at EVMSG Meeting	0.5 days	Fri 4/9/10	Fri 4/9/10									
38	Follow-up w/CEVM	0.5 days	Thu 4/29/10	Thu 4/29/10									
39	Follow-up w/CEVM	0.5 days	Thu 5/27/10	Thu 5/27/10									
40	Follow-up w/CEVM	0.5 days	Tue 6/29/10	Tue 6/29/10									
41	Follow-up w/CEVM	0.5 days	Thu 7/29/10	Thu 7/29/10									
42													
43	Recommendation 5 - Direct Billing Authority	126 days	Thu 4/8/10	Thu 9/30/10									
44	All contractors (except BAE Systems) have been approved and direct billing authority has been authorized	1 day	Thu 4/8/10	Thu 4/8/10									
45	SPN head to continue monitor status & help contractors obtain approval	126 days	Thu 4/8/10	Thu 9/30/10									
46													
47	Recommendation 6 - Contract admin in place	60 days	Thu 4/8/10	Wed 6/30/10									

<p>Task</p> <p>Split</p> <p>Milestone</p> <p>Summary</p>	<p>Project Summary</p> <p>External Tasks</p> <p>External Milestone</p> <p>Inactive Task</p>	<p>Progress</p> <p>Deadline</p>
--	---	---------------------------------

Project: SSP Contract Practices POA
Date: Wed 4/7/10

Page 2

SSP Contracting Practices Corrective Action POA&M													
ID	Task Name	Duration	Start	Finish	2010								
					Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov
48	Includes contract admin as an assessable unit in SSP's Managers Internal Control program	1 day	Thu 4/8/10	Thu 4/8/10									
49	Ensure internal controls are in place for contract admin in future reviews	1 day	Thu 4/8/10	Thu 4/8/10									
50	Identify in next SSPNOTE signed out and when certification statement is due	60 days	Thu 4/8/10	Wed 6/30/10									
51													
52	FINAL REVIEW	10 days	Mon 9/27/10	Fri 10/8/10									
53	Review accomplishments vs. recommendations	10 days	Mon 9/27/10	Fri 10/8/10									
54	Final notification to NAS that all recommendations were implemented	5 days	Mon 10/4/10	Fri 10/8/10									

Task Project Summary External Tasks External Milestone Inactive Task	Progress Deadline
--	----------------------

Project: SSP Contract Practices POA
Date: Wed 4/7/10

Page 3

~~FOR OFFICIAL USE ONLY~~

~~Use this page as~~

~~**BACK COVER**~~

~~for printed copies~~

~~of this document~~

~~FOR OFFICIAL USE ONLY~~