

Naval Audit Service



Audit Report



Naval Air Station Sigonella, Italy Base Operating Support Contract

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N2013-0030

7 June 2013

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2012-138
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**MEMORANDUM FOR NAVAL FACILITIES ENGINEERING COMMAND EUROPE
AFRICA SOUTHWEST ASIA;
PUBLIC WORKS DEPARTMENT SIGONELLA**

**Subj: NAVAL AIR STATION SIGONELLA, ITALY BASE OPERATING
SUPPORT CONTRACT (AUDIT REPORT N2013-0030)**

**Ref: (a) NAVAUDSVC memo 2012-138, dated 11 Apr 12
(b) SECNAV Instruction 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. Recommendation 1 was addressed to Naval Facilities Engineering Command (NAVFAC) Europe Africa Southwest Asia (EURAFSWA); Recommendations 2 through 6 were addressed to NAVFAC EURAFSWA in conjunction with Public Works Department Sigonella. Responses were provided by NAVFAC EURAFSWA via NAVFAC Atlantic and NAVFAC Headquarters.

3. Management concurred with all six recommendations. Actions taken meet the intent of Recommendations 1 and 3 through 6, and those recommendations are closed. Actions planned meet the intent of Recommendation 2; that recommendation is considered open pending completion of the planned corrective actions, and is subject to monitoring in accordance with reference (b). Management should provide a written status report on the open recommendation within 30 days after the target completion date. Please provide all correspondence to the Assistant Auditor General for Research, Development, Acquisition and Logistics Audits, Arthur Scott, XXXXXXXXXXXX, with a copy to the Director, Policy and Oversight, XXXXXXXXXXXXXXXXXXXXXXXXXXXX. Please submit correspondence in electronic format (Microsoft Word or Adobe Acrobat file), and ensure that it is on letterhead and includes a scanned signature.

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**Subj: NAVAL AIR STATION SIGONELLA, ITALY BASE OPERATING
SUPPORT CONTRACT (AUDIT REPORT N2013-0030)**

4. 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).
5. We appreciate the cooperation and courtesies extended to our auditors.



ARTHUR L. SCOTT, JR.
Assistant Auditor General
Research, Development, Acquisition and
Logistics Audits

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Table of Contents

Section A: Audit Results	1
Reason for Audit.....	1
Synopsis	1
Federal Managers' Financial Integrity Act	2
Noteworthy Accomplishments	2
Communication with Management.....	2
Background.....	3
Audit Finding	3
Internal Controls over Base Operating Support Contract Surveillance	3
Results.....	5
Performance Assessment	5
Construction Delivery Orders	6
Contract Payments	7
Recommendations and Corrective Actions	8
Section B: Status of Recommendations	12
Exhibit A: Pertinent Guidance.....	13
Exhibit B: Scope and Methodology	15
Exhibit C: Activities Visited and/or Contacted	17
Appendix: Management Response.....	18

Section A:

Audit Results

Reason for Audit

The Under Secretary of the Navy requested that Naval Audit Service perform additional reviews on the Navy's Base Operating Support (BOS) contracts located outside the Continental United States based upon previous audit work conducted in Camp Lemonnier, Djibouti, Africa, and Navy Support Facility Diego Garcia. The objective of this audit was to verify that the Naval Air Station Sigonella, Italy Base Operating Support contract is effectively administered in accordance with contracting and disbursing policies and procedures.

Synopsis

We found that Naval Facilities Engineering Command (NAVFAC) Public Works Department (PWD) Sigonella did not have sufficient internal controls in place to ensure the BOS contract at Naval Air Station Sigonella, Italy was effectively administered in accordance with contracting and disbursing policies and procedures. Specifically, NAVFAC PWD Sigonella did not provide sufficient surveillance over the BOS contract to ensure that the contractor was performing in accordance with contract requirements and did not perform sufficient validation of contractor invoices to ensure the Department of the Navy received goods and services for which it paid or that costs were effectively managed and allowable per the Federal Acquisition Regulation.

These internal control weaknesses occurred because NAVFAC Europe Africa Southwest Asia (EURAFSWA) had not provided sufficient oversight of contracting operations and contract payments supporting the BOS contract at PWD Sigonella. As a result, NAVFAC EURAFSWA and PWD Sigonella could not provide assurance that the Navy received the goods and services for which it paid on the \$36 million BOS contract, or that internal controls were sufficient to detect, deter, and prevent fraud and abuse.

This audit, which was conducted between 11 April 2012 and 7 February 2013, includes audit results and recommendations that address significant internal control weaknesses related to execution and oversight of the BOS contract at Naval Air Station Sigonella, Italy. These conditions existed from 20 November 2008 (the date of contract award) to the present. Details concerning these weaknesses are addressed in the Audit Finding section of the report.

We recommend that NAVFAC EURAFSWA coordinate with PWD Sigonella to develop and implement internal controls over BOS contract surveillance and invoice payments to ensure that the BOS contract is effectively administered in accordance with contracting and disbursing policies and procedures. Specific recommendations can be found in the Audit Results section of the report and in Section B.

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 internal controls over Outside the Continental United States contract administration and disbursing operations conducted in support of Naval Air Station Sigonella, Italy. In our opinion, the weaknesses noted in this report, in conjunction with prior reports noting weaknesses related to the control environment for selected overseas contracting operations, may warrant reporting in the Auditor General's annual Federal Managers' Financial Integrity Act memorandum identifying management control weaknesses to the Secretary of the Navy.

Noteworthy Accomplishments

NAVFAC EURAFSWA has begun implementing changes to its Performance Assessment training class based on the preliminary audit findings at Naval Air Station Sigonella, Italy. The training now includes information regarding the importance of respecting Functional Assessment Plan assessment frequencies and Performance Assessment Representative assessment schedules. In addition, the class also stresses the need to provide a clear audit trail at all times during the Performance Assessment process. However, further audit work was not conducted to determine the sufficiency of the corrective actions initiated by NAVFAC EURAFSWA.

Communication with Management

On 17 May 2012, we met with the Executive Officer of Naval Facilities Engineering Command Europe Africa Southwest Asia, as well as the Facility Engineering and Acquisition Division Director and Deputy Public Works Officer of Naval Air Station Sigonella to discuss preliminary audit findings as related to the BOS contract audit at Naval Air Station Sigonella. We briefed the Under Secretary of the Navy and Naval Facilities Engineering Command Executive Director on 2 July 2012, to address preliminary audit findings identified during the Guam and Sigonella, Italy Base Operating Support contract audits.

Background

The primary mission of Naval Air Station Sigonella, Italy is to provide support from the shore through execution of tasking and provision of requisite facilities to ensure operational, logistical, command and control, and administrative support to the United States, North Atlantic Treaty Organization, and other coalition forces. NAVFAC EURAFSWA manages facility project planning and design, including all related acquisition, construction, leasing, environmental, maintenance, and contingency support required by the Navy and Department of Defense commands throughout Europe; Southwest Asia; and the Gulf of Guinea, Africa, and the Horn of Africa, to include Naval Air Station, Sigonella. In 2008, NAVFAC EURAFSWA awarded a combination firm-fixed-price and indefinite-delivery-indefinite-quantity (IDIQ) BOS contract at Naval Air Station Sigonella to provide services for basic base operations.¹ The Naval Air Station Sigonella Public Works Department contracting and assessment personnel reports to NAVFAC EURAFSWA.

Audit Finding

Internal Controls over Base Operating Support Contract Surveillance

We found that NAVFAC PWD Sigonella did not have sufficient internal controls in place to ensure the BOS contract at Naval Air Station Sigonella, Italy was effectively administered in accordance with contracting and disbursing policies and procedures. Specifically:

- Performance Assessment Representatives did not provide sufficient written justification for 427 Performance Assessment Worksheets prepared in March, June, September, and December 2011 and did not clearly articulate what surveillance was conducted to support performance assessment ratings, contractor payments, and withholdings.
- Functional Assessment Plans did not address specific performance objectives or standards for multiple contract specification items.
- Performance surveillance reviews were not completed by performance assessment personnel for 12 BOS constructions delivery orders throughout the life of the contract.

¹ When we refer to NAVFAC EURAFSWA and the Sigonella Public Works Department in this report, we are specifically referring to the contracting functions within these organizations with responsibilities over the Sigonella BOS contract.

- Contracting Officer and Contracting Officer Representative (COR) did not consistently validate the accuracy and reasonableness of invoices for goods and services provided for this contract.

These conditions occurred because:

- The contract did not include measurable performance standards for all contract specifications or require monthly itemized invoices.
- NAVFAC EURAFSWA contract administration office did not provide PWD Sigonella with sufficient oversight, to include reviews of contract operations, to ensure the performance assessment program was adequately executed.
- The Contracting Officer did not appoint a COR for 40 of 60 months of the contract life.
- The contracting officer did not inform the COR of construction tasks orders being issued under the BOS contract to ensure surveillance was being conducted as required.
- The Contracting Officer was relying on un-appointed NAVFAC personnel, specifically construction managers, to perform surveillance functions on 12 delivery orders reviewed.
- NAVFAC EURAFSWA's contracting office and NAVFAC PWD Sigonella did not establish the necessary management controls, such as written procedures identifying the roles and responsibilities for reviewing and validating accuracy and reasonableness of invoices.
- The COR designation letter generically assigned responsibility for ensuring that all information in the invoice was accurate prior to submittal for payment. However, it did not provide sufficient detail to direct the COR in how to perform his/her responsibilities, and NAVFAC PWD Sigonella COR's roles and responsibilities were not clearly identified, or communicated to the COR.

As a result, NAVFAC EURAFSWA and PWD Sigonella could not provide assurance that the Navy received the goods and services for which it paid on the \$36 million BOS contract, or that internal controls were sufficient to detect, deter, and prevent fraud and abuse.

Results

Performance Assessment

To meet the Federal Acquisition Regulation quality assurance requirements, NAVFAC developed and used the Performance Assessment User Guide which provides guidance for conducting surveillance of performance-based contracts. We found that performance assessments were not being sufficiently performed over the Sigonella BOS Contract. NAVFAC's Performance Assessment User Guide outlines the use of Functional Assessment Plans, which document the approach that the Performance Assessment Representative uses when assessing the contractor's work against measurable performance standards. However, we found that Sigonella's Functional Assessment Plans did not address specific performance objectives or standards for multiple contract specification items. We also found that the Functional Assessment Plans began at a specification level that is not consistent with the Performance Assessment User Guide. Additionally, we found the assessments conducted by the Performance Assessment Representative were further hindered by contract performance standards that were not measurable and, therefore, did not allow for sufficient assessments of the contractor's performance. This condition occurred because the contract did not include measurable performance standards for all specifications. For instance, out of 12 Functional Assessment Plans, 6 contained performance standards that were not measurable. Without measurable performance standards, the Performance Assessment Representatives were unable to accurately assess the contractor's performance for all contract requirements.

Further impacting the Performance Assessment Program, we found that Performance Assessment Representatives did not provide sufficient written justification for the 427 Performance Assessment Worksheets prepared in March, June, September, and December 2011 and did not clearly articulate what surveillance was conducted to support contractor performance ratings. Specifically, we found that Performance Assessment Worksheets:

- Excluded recommendations for withholdings when defects occurred;
- Lacked sufficient verbiage providing justification for contractor performance ratings; and
- Did not contain details as to how reviews were conducted (i.e., sample size observed and frequency of assessment).

Additionally, Performance Assessment Representatives were not documenting their methodology for calculating recommended withholdings. These conditions occurred because NAVFAC EURAFSWA contracting officials did not perform management reviews of contracting operations in Sigonella to ensure that surveillance duties and

responsibilities were sufficiently performed and documented. These also occurred because a COR had not been designated for 40 of the 60 months of the contract. When a COR was designated, during the audit on 2 March 2012, the COR's designation letter did not address oversight responsibilities over Performance Assessment Representatives. Additionally, the COR designated was not performing COR duties fulltime. As a result, NAVFAC EURAFSWA and PWD Sigonella could not provide assurance that the Navy received the goods and services for which it paid on the \$36 million BOS contract, or that internal controls were sufficient to detect, deter, and prevent fraud and abuse.

The above issues were discussed with NAVFAC EURAFSWA and PWD Sigonella. NAVFAC EURAFSWA management took action to address our finding and updated the COR designation letter, which was provided on 25 August 2012. The designation letter now requires the COR to be responsible for the oversight of the Performance Assessment Representatives under the Sigonella BOS contract and responsible for reviewing Performance Assessment Worksheets for accuracy and completeness.

Construction Delivery Orders

We found that the COR and the Performance Assessment Representatives did not perform surveillance for 12 delivery orders, valued at \$2.5 million, issued under the Sigonella BOS contract. Specifically, they did not perform onsite inspections, document surveillance of contractor performance, document approval of deliverables, or review invoices. This condition occurred because the Contracting Officer did not inform the COR of construction tasks orders being issued under the BOS contract to ensure surveillance was being conducted as required.

In addition, this occurred because the contracting officer was relying on unappointed NAVFAC personnel, specifically construction managers, to perform surveillance functions on the 12 delivery orders reviewed. Specifically, the contracting officer did not prepare appointment letters outlining the roles and responsibilities of the construction managers for the construction delivery orders. We determined that the contracting officer relied on the construction managers to provide technical expertise. According to the Naval Facilities Acquisition Supplement 1.602-2(b), "Departmental Accountable Official (DAO)," contracting officials are required to formally appoint individuals as DAOs by appointment letter before delivery order award to provide technical monitoring of a contract. Business Management System Policy Subsection S-18.3.6.4, states that DAOs are individuals who perform a technical oversight function and provide the Certifying Officer (warranted Contracting Officer) with information that confirms the overall percentage of contract work received/completed. Personnel that are typically appointed as DAOs include CORs, Alternate CORs, Navy Technical Representatives, and Performance Assessment Representatives.

Business Management System Policy S-18.3.6.4 also states that a contracting officer shall formally appoint DAOs in writing, and DAOs will acknowledge the appointment by

signing and dating the appointment letter. Appointment letters should define the scope and limitations of the position. Additionally, the DAOs must complete Contracting Officer Representative training prior to appointment. To further compound the surveillance problem, we found the construction managers used a generic checklist that did not measure contractors' performance against contract requirements. The construction managers also did not maintain surveillance documentation to identify the criteria and methodologies, and/or qualitative acceptance/noncompliance factors used to verify contractor performance. For instance, of the 12 delivery order contracts files reviewed, we found 5 contract files that did not contain a checklist or any evidence of surveillance activities. The remaining delivery order contract files contain incomplete construction checklists and no supporting documentation supporting surveillance activity. As a result, the Department of the Navy has no assurance that the construction work performed met BOS contract requirements.

Contract Payments

We found no evidence that the Contracting Officer or COR had reviewed invoices to verify the accuracy and reasonableness of invoices submitted by the contractor for goods and services provided for this contract. Additionally, upon review of the contracting files, there was no documented evidence to support invoice reviews had occurred for 9 monthly invoices, valued at \$4.1 million. However, both contracting personnel stated that they did perform reviews of the invoices, but could not provide sufficient documentation to support the reviews that had occurred.

Further, if they were reviewing the invoice, the contracting personnel could not clearly identify what was being charged on each invoice. For example, the contractor submitted monthly summary invoices which did not include an itemized breakdown of the charges for the goods and services received. This condition hindered the contracting officer and COR's ability to conduct detailed invoice reviews that would provide assurance that goods and services billed were accurate and reasonable. These conditions occurred because:

- The contract did not require the contractor to submit monthly itemized invoices.
- NAVFAC EURAFSWA contracting office and NAVFAC PWD Sigonella had not established the necessary management controls, such as written procedures identifying the roles and responsibilities for reviewing and validating the accuracy and reasonableness of invoices.
- The COR designation letter generically assigned responsibility for ensuring that all information in the invoice was accurate prior to submittal for payment; however, it did not provide sufficient detail to direct the COR on how to perform their responsibilities, and the NAVFAC PWD Sigonella COR's roles and responsibilities were not clearly identified or communicated to the COR.

As a result, the Department of the Navy was not assured the contractor complied fully with the terms of the Sigonella BOS contract or that the Department of the Navy received the best value when contracting for services. We consider this to be a significant management control weakness. It is imperative to maintain sufficient internal controls to ensure duplicative or improper payments do not exist.

As previously mentioned, NAVFAC management took action to address our finding and updated the COR designation letter, which was provided on 25 August 2012. The designation letter now also requires the COR to be responsible for reviewing Performance Assessment Worksheets against the invoices for delivery orders and monthly firm-fixed-price services. It also requires that the COR's review will result in recommendation for full or partial payment.

Recommendations and Corrective Actions

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

We recommend that Naval Facilities Engineering Command Europe Africa Southwest Asia:

Recommendation 1. Conduct management reviews of the Public Works Department Sigonella contracting office to ensure that surveillance duties and responsibilities are sufficiently performed and documented.

Management response to Recommendation 1. Concur. In response to an enterprise-wide initiative to address noted shortcomings in Base Operating Support contract management practices, Naval Facilities Engineering Command Europe Africa Southwest Asia conducted a Base Operating Support stand down and performed a management review of all contracting offices, including Public Works Department Sigonella. The form focused on best business practices, delineated responsibilities, identified areas for improvement, and stressed deliberate adherence to command process and policy as it pertains specifically to the management of service contracts. Naval Facilities Engineering Command Europe Africa Southwest Asia memorandum of 12 December 2012 reports stand down results and findings across all Public Works Departments in the Europe Africa Southwest Asia area of responsibility. We request closure of Recommendation 1 effective 6 November 2012.

Naval Audit Service comment on response to Recommendation 1. Actions taken satisfy the intent of the recommendation, and it is considered closed.

We recommend that Naval Facilities Engineering Command Europe Africa Southwest Asia in conjunction with Public Works Department Sigonella:

Recommendation 2. Review the Sigonella Base Operating Support contract and ensure all contract requirements are measurable to allow for sufficient assessments of contractor's performance.

Management response to Recommendation 2. Concur. The contracting officer representative initiated monthly reviews of the Base Operating Support contractor's performance on 18 December 2012. Findings are briefed to the Performance Assessment Board members monthly. To improve Performance Assessment Representative oversight, the Senior Performance Assessment Representative conducts daily meetings and reviews performance assessments worksheets and assessment schedules. Additionally, the contract performance standards are being revised and the new standards will be included in the Fiscal Year 2014 Base Operating Support contract projected to start on 1 December 2013. We request closure of Recommendation 2 effective 17 July 2012.

Naval Audit Service comment on response to Recommendation 2. Actions taken and planned satisfy the intent of the recommendation. Although management requested the recommendation be closed, we consider it to be open until confirmation that the revised standards have been included in the Fiscal Year 2014 Base Operating Support contract. Therefore, we are establishing a target completion date of 1 December 2013 for this recommendation.

Recommendation 3. Direct the Sigonella Base Operating Support contractor to provide itemized monthly contractor invoices.

Management response to Recommendation 3. Concur. In compliance with Section G.1 of the Base Operating Support contract, which specifies that the Government reserves the right to require itemized invoices, we have provided an itemized invoice dated 31 December 2011. We request that Recommendation 3 be closed effective 1 January 2012.

Naval Audit Service comment on response to Recommendation 3. Actions taken satisfy the intent of the recommendation, and it is considered closed.

Recommendation 4. Appoint Departmental Accountable Officials to provide surveillance over the construction delivery orders under the Sigonella Base Operating Support contract to ensure goods and services are provided.

Management response to Recommendation 4. Concur. Naval Facilities Engineering Command Europe Africa Southwest Asia letter of 2 July 2012 and Naval Air Station Sigonella Facilities Engineering and Acquisition Division memorandum of 19 December 2012 charge the Public Works Department Sigonella staff with oversight of construction activities performed under the Base Operating Support Contract. Both documents include language ensuring the contracting officer representative and the Departmental Accountable Officials are responsible for the construction management, surveillance, and support the contracting officer by certifying payment vouchers and other documents under the current Base Operating Support contract. We request that Recommendation 4 be closed effective 2 July 2012.

Naval Audit Service comment on response to Recommendation 4. Actions taken satisfy the intent of the recommendation, and it is considered closed.

Recommendation 5. Issue written policy and procedures identifying the roles and responsibilities for reviewing and validating accuracy and reasonableness of invoices for the Sigonella Base Operating Support contract.

Management response to Recommendation 5. Concur. Naval Facilities Engineering Command Europe Africa Southwest Asia Standard Operating Procedure 001 of 5 September 2012 outlines invoice procedures to be used at all offices managing services contracts. Additionally, in June 2012, Public Works Department Sigonella issued a local standard operating procedure that specifies procedures for processing invoices to the current Base Operating Support contract at Naval Air Station Sigonella. We request that Recommendation 5 be closed effective 5 September 2012.

Naval Audit Service comment on response to Recommendation 5. We reviewed the June 2012 local standard operating procedure and noted that it outlines the five primary stakeholders with their roles and responsibilities for reviewing and validating accuracy and reasonableness of invoices. Actions taken satisfy the intent of the recommendation, and it is considered closed.

Recommendation 6. Issue written policies and procedures to ensure that the Contracting Officer Representative has oversight of construction delivery orders being issued under the Base Operating Support contract to ensure surveillance is being conducted.

Management response to Recommendation 6. Concur. Public Works Department Sigonella Standard Operating Procedure of 15 December 2012 describes the assignment and execution of indefinite delivery-indefinite quantity and minor construction task orders issued under the Base Operating Support contract at Naval Air Station Sigonella. It amplifies processes required by Naval

Facilities Engineering Command Europe Africa Southwest Asia Standard Operating Procedure 001 of 5 September 2012 as they specifically pertain to the Naval Air Station Sigonella contract. We request that Recommendation 6 be closed effective 1 December 2012.

Naval Audit Service comment on response to Recommendation 6. Actions taken satisfy the intent of the recommendation, and it is considered closed.

Section B:

Status of Recommendations

Recommendations						
Rec. No.	Page No.	Subject	Status ²	Action Command	Target or Actual Completion Date	Interim Target Completion Date ³
1	8	Conduct management reviews of the Public Works Department Sigonella contracting office to ensure that surveillance duties and responsibilities are sufficiently performed and documented.	C	Naval Facilities Engineering Command Europe Africa Southwest Asia	11/6/12	
2	9	Review the Sigonella Base Operating Support contract and ensure all contract requirements are measurable to allow for sufficient assessments of contractor's performance.	O	Naval Facilities Engineering Command Europe Africa Southwest Asia in conjunction with Public Works Department Sigonella	12/1/13	
3	9	Direct the Sigonella Base Operating Support contractor to submit itemized monthly contractor invoices.	C	Naval Facilities Engineering Command Europe Africa Southwest Asia in conjunction with Public Works Department Sigonella	1/1/12	
4	9	Appoint Departmental Accountable Officials to provide surveillance over the construction delivery orders under the Sigonella Base Operating Support contract to ensure goods and services are provided.	C	Naval Facilities Engineering Command Europe Africa Southwest Asia in conjunction with Public Works Department Sigonella	7/2/12	
5	10	Issue written policy and procedures identifying the roles and responsibilities for reviewing and validating accuracy and reasonableness of invoices for the Sigonella Base Operating Support contract.	C	Naval Facilities Engineering Command Europe Africa Southwest Asia in conjunction with Public Works Department Sigonella	9/5/12	
6	10	Issue written policies and procedures to ensure that the Contracting Officer Representative has oversight of construction delivery orders being issued under the Base Operating Support contract to ensure surveillance is being conducted.	C	Naval Facilities Engineering Command Europe Africa Southwest Asia in conjunction with Public Works Department Sigonella	12/1/12	

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.

Pertinent Guidance

Federal Acquisition Regulation Subpart 46.4, “Government Contract Quality Assurance,” dated February 2, 2006, states that Quality Assurance Surveillance Plans (QASPs) should be prepared in conjunction with the preparation of the statement of work. Additionally, QASPs should specify all work requiring surveillance and the method of surveillance. The surveillance shall be performed at such times or places deemed necessary to ensure that services conform to contract requirements.

Federal Acquisition Regulation Subpart 37.6, “Performance-Based Acquisition,” dated February 2, 2006, states that performance-based contracts for services must include measureable performance standards and the method of assessing contractor performance.

Federal Acquisition Regulation Subpart 37.6, “Performance-Based Acquisition,” dated 2 February 2006, states that performance-based contracts for services must include measureable performance standards and the method of assessing contractor performance.

Federal Acquisition Regulation, dated March 2005, is the primary regulation for use by all Federal Executive agencies in their acquisition of supplies and services with appropriated funds.

Department of Defense (DoD) Financial Management Regulation 7000.14.R, Volume 5, Chapter 33, August 2010, establishes disbursing requirements; principles; standards; responsibilities; procedures; practices; and pecuniary liability standards for certifying officers, disbursing officers, and other accountable officials throughout DoD.

DoD Financial Management Regulation 7000.14.R, Volume 10, Chapter 8, “Commercial Payment Vouchers and Supporting Documents,” December 2009, prescribes the principles, objectives, and related requirements for DoD civilian employee pay operations and systems. The requirements in this chapter apply to any civilian pay system used for employees who are paid from appropriated, revolving, or trust funds.

Naval Facilities Engineering Command’s Performance Assessment User Guide, last revised September 2010, provides guidance for conducting performance assessment for performance-based contracts, and is used by Naval Facilities Engineering Command to meet Federal Acquisition Regulation quality assurance requirements. This guide requires

the development of Functional Assessment Plans, which outlines the method of surveillance that is to be used by the Performance Assessment Representative when assessing the contractor's work against measurable performance standards. The Performance Assessment User Guide requires that contractor performance be documented using the Performance Assessment Worksheet. The Performance Assessment Representative will use the Performance Assessment Worksheet to document the observations and rate the contractor's performance. The Performance Assessment Representative and Senior Performance Assessment Representative will collect, review, and evaluate the results of all performance assessments including Performance Assessment Worksheet documentation, validated customer complaints, customer evaluations, trend data, and Contractor Quality Management System corrective and preventive actions into a Monthly Performance Assessment Summary. The Performance Assessment Representative has the ability to assess withholdings (monetary) for nonconformance of work that will not be paid until issues are resolved and acceptance of the work has been formally accomplished. Withholdings can be permanent or temporary. A permanent reduction in price may occur when the full extent of damages is determined. Withholdings are primarily intended to motivate good performance and not exclusively to penalize the contractor.

Naval Facilities Acquisition Supplement, dated March 2006, provides general guidance to field contracting officers in the execution of their delegated authority. It implements or supplements the Federal Acquisition Regulation, Defense Federal Acquisition Regulation Supplement, and the Navy Marine Corps Acquisition Regulation Supplement. It is not a stand-alone document, but must be read together with the Federal Acquisition Regulation, Defense Federal Acquisition Regulation Supplement, and Navy Marine Corps Acquisition Regulation Supplement.

Scope and Methodology

We conducted our audit from 11 April 2012 to 7 February 2013. This report addresses the results of our audit to verify that the Naval Air Station Sigonella Base Operating Support contract is effectively administered in accordance with contracting and disbursing policies and procedures. We discussed the results with representatives from the Naval Facilities Engineering Command (NAVFAC) Europe Africa Southwest Asia (EURASFWA), as well as Naval Air Station Sigonella Public Works Department personnel, in May 2012. We discussed the results with the Under Secretary of the Navy in July 2012.

We evaluated internal controls and reviewed compliance with regulations and Department of Defense and Department of the Navy policies and procedures applicable to acquisition, contracting, and disbursing. We held interviews with personnel from NAVFAC EURASFWA, Naval Air Station Sigonella Public Works Department, and the contractor in order to understand the performance assessment program as well as disbursing and contracting operations.

We interviewed NAVFAC EURASFWA contracting personnel, Naval Air Station Sigonella Public Works Department personnel, the Contracting Officer Representative, performance assessment personnel, and contractor quality control personnel regarding their roles and responsibilities over the Base Operating Support contract. We requested and obtained access to all contract files in order to determine the sufficiency of the Base Operating Support contract master file. We received electronic files contained on the Naval Air Station Sigonella Public Works Department shared drive, as well as hard copy documentation maintained at Naval Air Station Sigonella. Furthermore, we obtained and reviewed the standard operating procedures in order to determine if local policies and procedures were in place to detect and deter fraud and abuse.

We performed a 100-percent review of all contract annexes, to review the adequacy of Navy performance surveillance. We obtained and reviewed performance assessment documentation, including Functional Assessment Plans and Performance Assessment Worksheets; Performance Work Statements; and standard operating procedures for all annexes. We reviewed 100 percent of the available assessment documentation for the months of March, June, September, and December 2011. These months were judgmentally selected in order to ensure samples were spread throughout the year, and thus reduce the chance of seasonal factors distorting the audit results. We assessed the adequacy and implementation of the contractor's quality control program by reviewing their Quality Plan. We accompanied the Performance Assessment Representative

coordinator for each selected annex to observe their process and identify any issues within the annex. Furthermore, the team reviewed monthly invoices in accordance with the selection of assessment documentation (March, June, September and December 2011). We also selected for review 100 percent of the available invoice documentation for the months of March, June, September and December 2010⁴ to reflect results before there was a Contracting Officer Representative (COR) designated to the Base Operating Support contract. We also reviewed 12 delivery orders that were construction related because they were invoiced under the Base Operating Support contract, and in the auditors' judgment seemed to fall outside the contract scope of work.⁵ Additionally, 7 additional task/delivery orders were judgmentally selected from the universe of 346 delivery orders based on their high dollar value.

We reviewed Naval Audit Service, Department of Defense Inspector General, and General Accountability Office reports and found there were no reports published covering the Naval Air Station, Sigonella Base Operating Support contract; therefore, no followup was required. 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 the audit objectives.

⁴ These months were judgmentally selected in order to reflect results before there was a Contracting Officer Representative (COR) designated to the Base Operating Support contract.

⁵ Our subsequent audit work did not find any significant indications of work being done that was outside the scope of the contract.

Exhibit C:

Activities Visited and/or Contacted

Naval Facilities Engineering Command (NAVFAC) Headquarters, Washington, DC*

NAVFAC Atlantic, Norfolk, Virginia

NAVFAC Europe Africa Southwest Asia, Naples, Italy*

Commander Navy Region EURAFSWA, Naples, Italy*

Public Works Department, Naval Air Station, Sigonella, Italy*

*Activities visited

Appendix:

Management Response



DEPARTMENT OF THE NAVY
NAVAL FACILITIES ENGINEERING COMMAND
1322 PATTERSON AVENUE, SE SUITE 1000
WASHINGTON NAVY YARD DC 20374-5065

7510
Ser 09IG/014
9 May 2013

SECOND ENDORSEMENT on NAVFAC EURAFSWA ltr 4330 Ser 00/1512
of 8 May 13

From: Commander, Naval Facilities Engineering Command
To: Auditor General of the Navy, Naval Audit Service

Subj: CLOSURE OF RECOMMENDATIONS 1-6, NAVAL AUDIT SERVICE AUDIT
REPORT NAVAL AIR STATION SIGONELLA, ITALY, BASE OPERATING
SUPPORT (BOS) CONTRACT (N2012-0138, 7 FEB 2013)

1. Forwarded with NAVFAC Headquarters' concurrence.
2. The NAVFAC Headquarters' point of contact is [REDACTED]. [REDACTED] can be reached on [REDACTED] or email [REDACTED].

[REDACTED]
[REDACTED]
Deputy Inspector General

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NAVFAC EURAFSWA

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DEPARTMENT OF THE NAVY
NAVAL FACILITIES ENGINEERING COMMAND, ATLANTIC
6506 HAMPTON BLVD
NORFOLK VA 23508-1278

IN REPLY REFER TO:

7510
Ser 09IG/00156
08 May 13

FIRST ENDORSEMENT on NAVFAC EURAFSWA ltr 4330 Ser 00/1512
of 08 May 13

From: Commander, Naval Facilities Engineering Command, Atlantic
To: Auditor General of the Navy, Naval Audit Service
Via: Commander, Naval Facilities Engineering Command (IG)

Subj: CLOSURE OF RECOMMENDATIONS 1-6, NAVAL AUDIT SERVICE AUDIT
REPORT NAVAL AIR STATION SIGONELLA, ITALY, BASE OPERATING
SUPPORT (BOS) CONTRACT (N21012-0138, 7 FEB 2013)

1. Readdressed and Forwarded.
2. Based on the follow-up audit response prepared by Naval Facilities Engineering Command Europe Africa Southwest Asia, we concur that the six recommendations are closed.
3. For any questions concerning this matter, please contact [REDACTED], Command Inspector General, at [REDACTED], DSN [REDACTED], or e-mail: [REDACTED].

[REDACTED]
[REDACTED]
Vice Commander

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DEPARTMENT OF THE NAVY
NAVAL FACILITIES ENGINEERING COMMAND EUROPE AFRICA SOUTHWEST ASIA
PSC 817 BOX 51
FPO AE 09622-0051

4330
Ser 00/1512
8 May 13

From: Commanding Officer, Naval Facilities Engineering Command,
Europe Africa Southwest Asia
To: Naval Audit Service, Washington DC
Via: (1) Commander, Naval Facilities Engineering Command,
Atlantic
(2) Commander, Naval Facilities Engineering Command
Subj: CLOSURE OF RECOMMENDATIONS 1-6, NAVAL AUDIT SERVICE AUDIT
REPORT NAVAL AIR STATION SIGONELLA, ITALY, BASE OPERATING
SUPPORT (BOS) CONTRACT (N2012-0138, 7 FEB 2013)
Ref: (a) Naval Audit Service, Audit Report, Naval Air
Station Sigonella, Italy, Base Operating Support
Contract (BOSC) (N2012-0138, 7 Feb 2013)
Encl: (1) NAVFAC EURAFSWA Memorandum of 12 Dec 12
(2) PWD Sigonella Standard Operating Procedure of 1 Dec
12
(3) Performance Assessment Meeting Minutes dtd 7 Feb 13
(4) BOS Contract (N33191-09-D-0103) Section G.1, Contract
Administration Data
(5) BOS Contract Invoice dtd 31 Dec 12
(6) NAVFAC EURAFSWA ltr 43330 Ser CI/46623 of 2 Jul 12
(7) NAS Sigonella FEAD Memorandum of 19 Dec 12
(8) NAVFAC EURAFSWA Standard Operating Procedure 001 of 5
Sep 12
(9) NAVFAC EURAFSWA FEAD Sigonella Standard Operating
Procedures AQ (Revision II) of 29 Jun 12
(10) PWD Sigonella Standard Operating Procedure of 15 Dec
12

Because of
space
considerations,
the enclosures
cited here are
not included in
this report. The
enclosures are
available on
request.

1. Naval Facilities Engineering Command Europe Africa Southwest Asia (NAVFAC EURAFSWA) appreciates the feedback provided by the Naval Audit Service's review of the Base Operating Support (BOS) Contract at Public Works Department (PWD) Sigonella. We are committed to improving our processes and internal controls for all BOS contracts in the NAVFAC EURAFSWA area of responsibility (AOR).

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2. Both during, and since the audit team's 11 April 2012 visit, NAVFAC EURAFSWA has partnered with your team. Owing to this partnership, we have implemented controls that have effectively resolved the six recommendations in reference (a).

3. Enclosures (1) through (10) document actions we have taken to support this request for the closure of recommendations 1-6 promulgated in the subject report. Specifically:

a. Recommendation 1: Concur with your recommendation. The audit team noted the need for management reviews and other controls that will ensure contract surveillance is performed adequately. In response to an enterprise-wide initiative to address noted shortcomings in BOS contract management practices, NAVFAC EURAFSWA conducted a BOS stand down and performed a management review of all contracting offices including PWD Sigonella. The forum focused on best business practices, delineated responsibilities, identified areas for improvement, and stressed deliberate adherence to command process and policy as it pertains specifically to the management of service contracts. Enclosure (1) reports stand down results and findings across all PWDs in the EURAFSWA AOR. Pursuant to these actions, we request closure of recommendation 1 effective 6 November 2012.

b. Recommendation 2: Concur with your recommendation. The audit team noted some contract requirements were not measurable preventing accurate assessment of the contractor's performance. In response, the contracting officer representative (COR) initiated monthly reviews of the BOS contractor's performance on 18 December 2012 (example provided in enclosure (2)). Findings are briefed to the Performance Assessment Board (PAB) members during the monthly PAB. To improve the PAR oversight, the Senior Performance Assessment Representative (SPAR) conducts daily meetings and reviews performance assessment worksheets (PAWs) and assessment schedules. Enclosure (3) illustrates the process implementation and documents discussions on surveillance process changes and updates to current contract status. Additionally, the contract performance standards are being revised and the new standards will be included in the FY14 BOS contract projected to start on 1 December 2013.

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Enclosures (2) and (3) document the actions taken to ensure proper measurement of contract performance. We request closure of recommendation 2 effective 17 July 2012.

c. Recommendation 3: Concur with your recommendation. The audit team noted that the BOS contractor was not providing itemized invoices. In compliance with enclosure (4), an excerpt from the contract that specifies that the Government reserves the right to require itemized invoices, enclosure (5) is an itemized invoice dated 31 December 2011 and is provided in support of our request to close recommendation 3 effective 1 January 2012.

d. Recommendation 4: Concur with your recommendation. The audit team required appointment of accountable officials to provide surveillance over construction delivery issued against the BOS contract. Enclosures (6) and (7) charge the PWD Sigonella staff with oversight of construction activities performed under the BOS contract. Both documents include language ensuring the COR and the Departmental Accountable Officials (DAO), are responsible for the construction management, surveillance, and support the Contracting Officer by certifying payment vouchers and other documents under the current BOSC. We request closure of recommendation 4 effective 2 July 2012.

e. Recommendation 5: Concur with your recommendation. The audit team required written policy and procedure identifying roles and responsibilities for reviewing and validating accuracy and reasonableness of invoices. Enclosure (8) outlines invoice procedures to be used at all offices managing services contracts. Additionally, PWD Sigonella issued enclosure (9), a local SOP that specifies procedure for processing invoices to the current BOS contract at NAS Sigonella. We request closure of recommendation 5 effective 5 September 2012.

e. Recommendation 6: Concur with your recommendation. The audit team required policy to ensure the contracting officer maintains oversight of construction delivery orders issued against the BOS contract. Enclosure (10) is a local standard operating procedure that describes assignment and execution of indefinite delivery-indefinite quantity (IDIQ) and minor construction task orders issued under the BOS contract at NAS

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Sigonella. It amplifies processes required in enclosure (8) as
they specifically pertain to the NAS Sigonella contract. We
request closure of recommendation 6 effective 1 December 2012.

3. My point of Contact on this issue is [REDACTED]
can be contacted by phone at [REDACTED], DSN [REDACTED]
or by email: [REDACTED].

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