Internal Controls over the Execution of Husbanding Contracts - 7th Fleet Area of Responsibility

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21 June 2013
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MEMORANDUM FOR COMMANDER, PACIFIC FLEET
COMMANDER, NAVAL SUPPLY SYSTEMS COMMAND

Subj: INTERNAL CONTROLS OVER THE EXECUTION OF HUSBANDING CONTRACTS – 7TH FLEET AREA OF RESPONSIBILITY (AUDIT REPORT N2013-0033)

Ref: (a) NAVAUDSVC memo 2012-129, dated 21 Sep 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 findings and recommendations, summarized management responses, and our comments on the responses. Section B provides the status of the recommendations. The full text of management responses is included in the Appendices.

2. Actions planned by Commander, U.S. Pacific Fleet and Commander, Naval Supply Systems Command meet the intent of Recommendations 1-9. These recommendations are considered open pending completion of the planned corrective actions, and are subject to monitoring in accordance with reference (b). Management should provide a written status report on the recommendations within 30 days after target completion dates. Please provide all correspondence to the Assistant Auditor General for Installations and Environment Audits, Ron Booth, with a copy to the Director, Policy and Oversight. Please submit correspondence in electronic format (Microsoft Word or Adobe Acrobat file), and ensure that it is on letterhead and includes a scanned signature.

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

RON J. BOOTH
Assistant Auditor General
Installations and Environment Audits

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Executive Summary

Overview

The purpose of husbanding contracts is to provide services in support of U.S. Navy vessels in non-Navy ports. Husbanding contracts directly support a critical need for these ships to resupply throughout the world where there are no U.S. Navy facilities. Throughout the 7th Fleet area of responsibility, Naval Supply Systems Command (NAVSUP) Fleet Logistics Center Yokosuka, Japan administers contracts in support of Navy vessels that enter the Western Pacific region of the world. The major Navy customer within this area of responsibility is Commander, U. S. Pacific Fleet (COMPAFLT). While NAVSUP administers the contract, Pacific Fleet vessels use the contract when making port visits throughout the 7th Fleet area of responsibility. The supply officer aboard these vessels plays a key role in the execution of husbanding contracts as the primary interface between the ship and the husbanding service provider while in port. The supply officer is responsible for, but not limited to, issuing delivery/task orders, authorizing performance, and reviewing husbanding service provider\(^1\) invoices prior to payment.

This audit was conducted between 27 February 2012 and 11 April 2013, and provides a review of internal controls over execution of husbanding contacts in the 7th Fleet area of responsibility. In addition, the audit provided followup on a previous audit,\(^2\) specifically looking at effective management and the oversight of husbanding contracts.

Reason for Audit

The objective of this audit was to verify that internal controls over the execution of Department of the Navy (DON) husbanding contracts were operating to: (1) maximize cost effectiveness, quality of service, and efficiency across the 7th Fleet; and (2) detect, deter, and prevent fraud, waste, and abuse.

The Fiscal Year 2012 Risk and Opportunity Assessment identified global husbanding support as a medium risk.

\(^1\) A husbanding service provider provides or coordinates for the delivery or performance of supplies or services. The provider charges a contractually agreed-upon price for supplies/services originally priced in the contract and facilitates the ship in finding potential sources for supplies/services not priced in the contract.

**Noteworthy Accomplishments**

Commander Submarine Group 7 saved DON over $200,000 in Fiscal Year 2012 at one port alone due to their oversight and review of submarine husbanding port visits (we were provided documentation to support the $200,000; however, we did not audit that information). All logistics requirements messages and invoices are reviewed at a central location by personnel who are very familiar with ship needs, ports, and port service costs. In addition, they have the knowledge to determine price fairness and reasonableness for non-contract line items.\(^3\) This familiarity with the ports can create cost avoidance by knowing what services can be provided via host nation or Government-furnished equipment instead of by the husbanding service provider.

**Conclusions**

We audited 49 port visits associated with 6 husbanding contracts awarded by NAVSUP Fleet Logistics Center Yokosuka and Detachment Singapore, and conducted two port visits at Fleet Logistics Center Detachment Hong Kong. Overall, we found there could be improvements in the execution of husbanding contracts by NAVSUP and COMPACFLT to maximize the cost effectiveness, quality, and efficiency of port services provided to DON. In addition, we found that repeat conditions existed from audit N2010-0044 regarding NAVSUP’s internal controls and management oversight of husbanding contracts.

In our review of the execution of husbanding contracts, we found: (1) husbanding contracts were executed without an appointed Contracting Officer’s Representative; (2) contract requirements were not met in regard to supporting documentation; (3) some personnel lacked access to the Logistics Support Services Repository;\(^4\) (4) some non-contract line items lacked appropriate approvals; (5) Contractor Performance Assessment Reporting\(^5\) reviews were not conducted for husbanding task orders issued by the Fleet; (6) in some instances, estimated charges on invoices were paid during port visits; and (7) ship personnel were not able to validate offload measurements of volume-based services (i.e., collection, holding, and transfer,\(^6\) and trash) during port visits.

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\(^3\) Non-contract line items, also known as non-priced items, are products or services that are not pre-priced in the contract, but fall within the scope of the contract. Non-priced items must be determined to be fair and reasonable by a contracting officer or supply officer. Supply officers only have the authority to approve non-priced items below $25,000.

\(^4\) The Logistics Support Services Repository is the database that has information for all port visits using husbanding contracts and is a critical tool for planning port visits.

\(^5\) The Contractor Performance Assessment Reporting System is the Department's solution for collecting contractor performance information. The primary purpose of the Contractor Performance Assessment Reporting System is to ensure that current and accurate data on contractor performance is available for use in source selections. The reports through this system assess a contractor's performance, both positive and negative, and provide a record on a given contract during a specified period of time.

\(^6\) Collection, holding, and transfer is for the bacteriological and chemical liquids/waste that are offloaded from the vessel during port visits.
visits. These conditions occurred because the implementation of husbanding contracts and task orders lacked effective internal controls and management oversight.

Areas tested in audit N2010-0044 included contract solicitation, procurement, and cost reconciliation. As a result, NAVSUP implemented several changes to improve controls of the husbanding process. The Cost Reporting Analysis and Forecasting Tool has been replaced by the Logistics Support Services Repository, and this system was identified as a central repository for all documentation related to husbanding port visits. Non-contract line items are now negotiated by NAVSUP to assess incorporation in the contract as a firm fixed price, and invoices are maintained in a central location. However, the audit team found opportunities existed for further improvement to the internal control environment. For example, NAVSUP’s Procurement Performance Management Assessment Program and Quality Assurance Self Assessment processes (internal review) do not include a majority of the husbanding contract actions due to the sampling methodology. The Logistics Support Services Repository currently does not include all port visit documentation as originally intended. Further, cost/invoice reconciliation is not always performed on ship-executed husbanding contract orders. Although the husbanding contracts include the requirement to measure liquids off-loaded from ships, many ships are unable to accurately determine and verify the quantity and methodology used by the husbanding service provider. As a result, 7th Fleet husbanding contracts/task orders may have been vulnerable to fraud, waste, and abuse.

Communication with Management. Throughout the audit, we kept NAVSUP and COMPACFLT informed of the conditions noted. Specifically, we:

- Conducted multiple meetings with Fleet Logistics Center, Yokosuka, Japan Contracting and Logistics staff between 30 April 2012 and 4 May 2012. In addition, we conducted a closing conference with the Commanding Officer, Director of Far East Contracting, and the Director of Operations on 4 May 2012 to inform the command of issues found concerning the administration and execution of husbanding contracts;
- Conducted multiple meetings with Fleet Logistics Center Detachment Singapore Contracting and Logistics staff during 29 May 2012 and 7 June 2012. In addition, we conducted a closing conference with the Director of Contracting, Deputy Director of Contracting, and Husbanding Branch Chief on 7 June 2012 to inform the command of issues found concerning the administration and execution of husbanding contracts.

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7 The Cost Reporting Analysis and Forecasting Tool was a system used by Fleet Logistics Center Detachment Singapore for 10 years prior to 2009 that captured high-level port visit invoice information.
8 The Procurement Performance Management Assessment Program is a flexible, performance-based, process-oriented program that includes self-assessment of an activity’s control of and continuous improvement in critical procurement processes, their performance-based metrics, and the results of employee and customer surveys. Included in this is the Quality Assurance Self Assessment, which is a self-assessment program that measures management of contracts and includes samples of contracts.
husbanding contracts. The Director and Deputy Director of Far East Contracting participated in the meeting via teleconference;

• Briefed preliminary audit results to staff from NAVSUP Headquarters, NAVSUP Global Logistics Support, Fleet Logistics Center Yokosuka and its detachments in Singapore and Hong Kong, and Commander, U.S. Pacific Fleet on 14 November 2012 regarding internal controls and management oversight for the administration and execution of husbanding contracts; and

• Briefed preliminary audit results to Commanding Officer, Fleet Logistics Center Yokosuka on 14 November 2012 regarding internal controls and management oversight for the administration and execution of husbanding contracts.

### 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 1-9 address issues related to the internal controls over the execution of husbanding contracts. An effective internal control environment helps ensure programs operate and resources are used in compliance with laws and regulations; it minimizes the potential for waste, fraud, and mismanagement. In our opinion, the conditions noted in the report may warrant consideration for 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 correct the noted weaknesses, we made a total of 9 recommendations to the Commander, U.S. Pacific Fleet and Commander, Naval Supply Systems Command to assign a Contracting Officer’s Representative for husbanding contracts, develop procedures to ensure personnel use the Logistics Support Services Repository, update policy to ensure volume-based services are measured accurately, enforce policy on payment for port visit services, capture all husbanding task orders in the Procurement Performance Management Assessment Program/Quality Assurance Self Assessment processes, and establish procedures to ensure contracting personnel are involved in the cost reconciliation process.

Actions planned by Commander, U.S. Pacific Fleet and Commander, Naval Supply Systems Command meet the intent of Recommendations 1-9. These recommendations are considered open pending completion of the planned corrective actions.
Finding 1: Husbanding Performance Management

Synopsis

The execution of husbanding contracts within the 7th Fleet area of responsibility was not sufficient to maximize the value and cost efficiency of port services provided to the Department of the Navy (DON). The primary purpose of husbanding contracts is to provide supplies and services in support of U.S. Navy vessels making port calls in non-Navy ports, with additional support for Military Sealift Command and U.S. Coast Guard ships. Support is provided by husbanding service providers under contract.

In our review of the execution of husbanding contracts, we found: (1) husbanding contracts were executed without an appointed Contracting Officer’s Representative; (2) contract requirements were not met in regard to supporting documentation; (3) some personnel lacked access to Logistics Support Services Repository;9 (4) some non-contract line items10 lacked appropriate approval; (5) a Contractor Performance Assessment Reporting11 review was not conducted for husbanding task orders issued by the Fleet; (6) estimated (instead of actual) charges on invoices were paid during port visits; and (7) ship personnel were not able to accurately validate offload measurements of volume-based services (i.e., collection, holding and transfer,12 and trash) during port visits.

According to Office of Management and Budget Circular A-123, management is responsible for developing and maintaining effective internal controls. In addition, the Department of Defense (DoD) Contracting Officer’s Representative Handbook states that the requiring activity, coordinating with the contracting office, is responsible for developing contract quality assurance, surveillance, and performance assessment plans.

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9 The Logistics Support Services Repository is the database that has information for all port visits using husbanding contracts and is a critical tool for planning port visits.
10 Non-contract line items, also known as non-priced items, are products or services that are not pre-priced in the contract, but fall within the scope of the contract. Non-priced items must be determined to be fair and reasonable by a contracting officer or supply officer. Supply officers only have the authority to approve non-priced items below $25,000.
11 The Contractor Performance Assessment Reporting System is the Department’s solution for collecting contractor performance information. The primary purpose of the Contractor Performance Assessment Reporting System is to ensure that current and accurate data on contractor performance is available for use in source selections. Reports through this system assess a contractor’s performance, both positive and negative, and provide a record on a given contract during a specified period of time.
12 Collection, holding, and transfer is the bacteriological and chemical liquids/waste that are offloaded from the vessel during port visits.
These conditions occurred because the implementation of husbanding contract task orders lacked effective internal controls and management oversight. As a result, ships may be overpaying for services received. Additionally, there is not an accurate assessment of contractor performance, thus resulting in: (1) the ineffective measurement of costs and quality of service; and (2) the possibility of the Government not receiving the best services for the warfighter.

Discussion of Details

Background

The purpose of husbanding contracts is to provide supplies and services in support of U.S. Navy vessels making port calls in non-Navy ports. The execution of husbanding contracts involves several key players, including Contracting Officer’s Representatives, contracting officers, and supply officers. The supply officers aboard ships have limited contracting authority delegated from Naval Supply Systems Command (NAVSUP). Type commanders fund the ships’ port visits and report to the U.S. Pacific Fleet. Commander, U.S. Pacific Fleet has an impact on the husbanding service contracts as well, first as the requirements generator or customer, and second as the senior Navy organization in the Pacific area. The Fleet Logistics Center Yokosuka Far East Contracting Department awards the husbanding contracts and provides support during port visits by interpreting contract terms and conditions, analyzing costs, and making fair and reasonable determinations on many items not priced in the contract.

Approximately 30 days prior to a port visit, the ship’s supply officer submits a logistics requirement message to the husbanding service provider. Within 48 hours of receipt of the message, the husbanding service provider sends a pre-visit cost estimate to the ship. The parties communicate, and once agreement is made, the husbanding service provider moves forward with ordering the supplies and services. The day before the ship leaves port, the husbanding service provider submits invoices to the ship and payment is normally processed before the ship’s departure. At the conclusion of a port visit, documentation associated with the port visit is recorded in the Logistics Support Services Repository. The Logistics Support Services Repository is a Web-based tool for DoD use that includes a standardized data system that houses husbanding contracts, port visit information, and contract administration data for Navy vessels and other authorized users. The system was initiated in 2009 and serves as the central repository for gathering, reporting, and tracking historical port cost data.

13 A husbanding service provider provides or coordinates for the delivery or performance of supplies or services. The provider charges a contractually agreed upon price for supplies/services originally priced in the contract and facilitates the ship in finding potential sources for supplies/services not priced in the contract.
Port visits are critical to theater security cooperation and other missions, in addition to contributing to the morale and well-being of personnel on board afloat units. Many ships do not visit non-Navy ports on a regular basis; therefore, knowledgeable logistics support is crucial to satisfy the afloat units’ requirements at a fair and reasonable cost to the U.S. Government.

For additional background information, see Exhibit A.

**Pertinent Guidance**

The Office of Management and Budget Circular A-123, “Management’s Responsibility for Internal Control,” dated December 2004, states that management is responsible for developing and maintaining effective internal controls.

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

**Subpart 46.103** states that the activity responsible for technical requirements is responsible for prescribing contract quality requirements, such as inspection. In addition, contracting offices are responsible for ensuring that nonconformances are identified, and establishing the significance of a nonconformance when considering the acceptability of supplies and services which do not meet contract requirements.

**Subpart 46.104** further states that when a contract is assigned for administration to the contract administration office cognizant of the contractor’s plant, that office shall [perform the following, but not limited to]: (1) develop and apply efficient procedures for performing Government contract quality assurance actions; (2) perform all actions necessary to verify whether the supplies or services conform to contract quality requirements; (3) report to the contracting office any defects observed in design or technical requirements, including contract quality requirements; and (4) recommend any changes necessary to the contract, specifications, instructions, or other requirements that will provide more effective operations or eliminate unnecessary costs.

DoD’s “Contracting Officer’s Representative Handbook,” dated March 2012, states that the requiring activity is responsible for developing contract quality assurance, surveillance, and performance assessment plans. Typical Contracting Officer’s Representative tasks include “ensuring the contractor is paid for acceptable performance and not paid for unacceptable performance (supplies or services).” The Contracting Officer’s Representative must assess the contractor’s performance to ensure that the supply or service delivered conforms to contract requirements.
DoD’s “Contractor Performance Assessment Reporting System Policy Guide,” dated June 2011, states that “the requiring activity must complete a Contractor Performance Assessment Reporting review” for each contract order in excess of $1 million for services and $150,000 for fuels when contracts are used by multiple activities or agencies. The responsibility for completing quality contractor reviews in a timely manner rests with the assessing official, who may be a program manager or the equivalent individual responsible for program, project, or task/job/delivery order execution.

For additional pertinent guidance, see Exhibit C.

Audit Results

Our audit focused on whether DON husbanding contracts were operating to:
(1) maximize cost effectiveness, quality of service, and efficiency across the 7th Fleet;
and (2) detect, deter, and prevent fraud, waste, and abuse. A sample of 49 port visits, valued at approximately $25.5 million, was judgmentally selected from all 6 husbanding contracts and all ship classes in our audit universe of 239 port visits, which totaled approximately $50.1 million. From the sample, we tested for (1) invoice compliance with the contract; (2) proper supply officer approval threshold for non-contract line items; (3) port visit documentation in the Logistics Support Services Repository system according to contract requirements; (4) total port visit costs in the Logistics Support Services Repository system substantiated by invoices; and (5) proper contract line item charges according to the contract. In addition to the sample, we conducted two port visits in Hong Kong, observing port operations onboard two Navy vessels. These port visits were covered under one husbanding contract. Areas of review included receipt of services, invoice reconciliation processes, security operations, and Government and ship personnel interaction with the husbanding service provider. Based on our review, we found the following conditions regarding Contractor Officer’s Representative, husbanding contract requirements, Logistics Support Services Repository, non-contract line items, contractor assessment review, and invoice payments and volume-based services.

Contracting Officer’s Representative

We found that the husbanding contracts were executed without an appointed Contracting Officer’s Representative. According to the Federal Acquisition Regulation Subpart 46.103(a), the activity responsible for technical requirements is responsible for prescribing contract policy requirements. According to the DoD Contracting Officer’s Representative Handbook, DoD policy states that the requiring activity participate in nominating Contracting Officer’s Representatives and assessing performance of their

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14 A contract line item is a funded line for a contract against a specific service. Most contracts break down contract line items by types of service and funding associated with the service.
responsibilities. Funding for this position was not provided prior to contract award and currently the billet has not been funded. This person is responsible for monitoring contractor performance and ensuring performance is commensurate with payment throughout the life of the contract.

According to the contract, the Contracting Officer’s Representative is a Government employee and is responsible for quality assurance functions of the contracted service. Some of the responsibilities include: (1) reviewing and reconciling husbanding service provider’s invoices, vouchers, and any other supplemental billing documentation prior to the afloat unit departure; (2) tracking and informing the Fleet Logistics Center Yokosuka Contracting Department and husbanding service provider when the husbanding service provider fails to comply with the technical requirements of the contract; (3) performing port site surveys; (4) monitoring contract performance on behalf of the contracting officer; and (5) ensuring compliance with the terms and conditions of the contract in terms of cost, quality, quantity, and schedule.

We found that without a Contracting Officer’s Representative in place, only limited oversight of the husbanding service provider was conducted. Some inconsistencies of the provider’s compliance with contract requirements from port visit observations included:

- There was not at least one English-speaking operator per water taxi as required by the contract. Our audit team observed the effect of not having an English-speaking operator during a port visit. In this instance, the communication barrier could have caused a potential delay in the ship’s scheduled departure time. We observed that the husbanding service provider requested the last scheduled water taxi to return to the ship; however, ship personnel requested that the water taxi driver wait for medical personnel on the pier side for an emergency situation. Fortunately, a Sailor who knew the local language was able to communicate with the water taxi driver, allowing personnel to tend to the emergency without delaying the ship’s departure;

- Contract-required logs to track water taxi schedules, including documenting arrival and departure times were not maintained. Consequently, water taxis were accounted for by the fact that they were running routes instead of noting the schedule/trips conducted. Charges for water taxis were based on the number of hours the water taxi was in service. According to the contract, the husbanding service provider shall obtain written acknowledgement of water taxi service by an authorized ship representative. Logs shall be used to document arrival and departure times and must be available upon request for U.S. Government review and inspection; and

- Contract-required contractors/subcontractor identification methods provided to the ship were inconsistent. One ship was provided with pictures of acceptable badges while another ship was not provided with information on how to identify contractor/subcontractor personnel. Photo identification badges were not visible at all times. Subcontractors did not wear recognizable or standard uniform/clothing
attire. Instead, they wore casual civilian clothes and were recognized as subcontractors based on their nationality. According to the contract, the husbanding service provider shall identify how contractor and subcontractor personnel will be recognizable to ship’s personnel. This may be accomplished by a combination of picture IDs, badges, uniforms, access lists, etc. The husbanding service provider shall issue photo identification badges to its personnel, ensure subcontractor personnel have photo identification badges, and ensure badges are visible at all times. The husbanding service provider shall ensure that their employees and subcontractor employees wear appropriate uniform items to identify them as Contractor personnel.

**Husbanding Contract Requirements**

We determined that several instances of contract-supporting documentation requirements were not met. From our sample review, supporting documentation for collection, holding and transfer, trash, and port tariffs were inconsistently provided. Our review of invoices submitted to the Logistics Support Services Repository by the husbanding service provider found that none of the invoice documentation included the method used to determine liquid quantities offloaded from the ship. None of the invoice documentation submitted to the Logistics Support Services Repository had sufficient supporting collection, holding and transfer, trash certificates, or delivery tickets, and 13 of 36 invoices lacked supporting port tariff documentation. According to the contract, the husbanding service provider shall include a written statement with the invoice package that describes the method used to determine the liquid quantities off-loaded from the ship. All invoices submitted should have all supporting documentation (i.e., trash and collection, holding, and transfer certificates; delivery tickets signed by ship personnel, with a legible signature and printed name and rank; port tariff invoices; invoices for items not pre-priced in the contract; and any other documentation showing that the supplies/services have been delivered and accepted).

From our review of port visit documentation submitted via e-mail to the Logistics Support Services Repository, 9 of the 49 sampled port visits did not contain logistics requirement messages, and 14 of 49 pre-visit cost estimates were missing. According to the contracts, these documents are required to be submitted via e-mail to the Logistics Support Services Repository by the husbanding service provider.

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15 There were 49 total port visits in our sample. The 12 South Korea port visits had different contract requirements, leaving 37 port visits. Five port visits did not request collection, holding, and transfer services; therefore, this invoice requirement did not apply, leaving 32 port visits. None of the 32 port visits included documentation of the method of measurement used.

16 There were 49 total port visits in our sample. The 12 South Korea port visits had different contract requirements, leaving 37 port visits. Two port visits did not request collection, holding, and transfer, or trash services; therefore, this invoice requirement did not apply, leaving 35 port visits. None of the 35 port visits included documentation supporting collection, holding, and transfer, and trash certificates or delivery tickets.

17 There were 49 total port visits in our sample. The 12 South Korea port visits had different contract requirements, leaving 37 port visits. One port visit did not have port tariff services; therefore, this invoice requirement did not apply, leaving 36 port visits. Thirteen of the 36 port visits did not include supporting port tariff documentation.
From the 49 port visits sampled, there were 561 contract line items ordered. The contract line item prices on invoices were higher than contract line item prices on the pricing schedule for 2 of the 561. Although only two instances were identified, this indicates a weakness in internal controls to prevent incorrect billing on contract line items. Contract line items have fixed prices for the length of the contract, so there should not be any discrepancies between the invoice and pricing schedule.

In addition, the cost of some port visits differed between what was reported in the Logistics Support Services Repository and the invoices. The husbanding service provider submits the invoices to NAVSUP to corroborate the final costs posted in the logistics database. Generally, the amount indicated in the database showed a higher port visit cost than the dollar amount of invoices for those port visits identified. The total gross difference between the database and the invoices was approximately $499,000. Therefore, the total dollar amount on the Logistics Support Services Repository cost reports was not always supported by substantiating invoices.

**Logistics Support Services Repository**

While the Logistics Support Services Repository is a critical tool in identifying port costs, not all supply officers and Fleet Logistics Center personnel had requested access to, or were aware of, the system. The Logistics Support Services Repository is the standardized husbanding model used for capturing and tracking historical port cost data. This database is a requirements validation tool for identifying significant cost drivers within various ports, countries, and regions. Currently, the husbanding service provider submits port visit documentation to the Logistics Support Services Repository e-mail address, which is the only source that is relied on for inputting information into the database.

**Non-Contract Line Items**

There were several non-contract line items that lacked appropriate approval. Supply officers have an ordering threshold up to $25,000; contracting officers are required to approve non-contract line items above $25,000. However, we found 50 of 135 instances in which non-contract line items above $25,000 were not properly approved. In 2 of these 50 instances, the supply officer approved above the ordering threshold, contrary to contract specifications. The other 48 approvals above the ordering threshold were from personnel other than the contracting officer or supply officer, or they lacked the approving documentation.

**Contractor Assessment Review**

A Contractor Performance Assessment Reporting review was not conducted on husbanding task orders issued by the Fleet. This review assesses a contractor’s performance, positively or negatively, and provides a record on a given contract during a specified period of time. According to the DoD Contractor Performance Assessment
SECTION A: FINDINGS, RECOMMENDATIONS, AND CORRECTIVE ACTIONS

FINDING1: HUSBANDING PERFORMANCE MANAGEMENT

Reporting System guidance, the issuer of the task order is responsible for completing the contractor performance review and submitting it to the Contractor Performance Assessment Reporting System. The Contractor Performance Assessment Reporting System is based on the unit identification code of the contracting activity; therefore, only the contracts awarded and modified by the NAVSUP unit identification code are registered in the Contractor Performance Assessment Reporting System and pulled from the Standard Procurement System. Most husbanding contracts task orders are not included in the Standard Procurement System because they are issued by the Fleet, which is not a contracting activity. Because the husbanding contracts task orders are not included in the Standard Procurement System, they are not included in the Contractor Performance Assessment Reporting System. In addition, one of the Contracting Officer’s Representative’s responsibilities is to prepare input to the contractor performance review. However, there is no Contracting Officer’s Representative for the husbanding contracts.

Invoice Payments and Volume-based Services

Payment was made on estimated rather than actual charges. During our port visit observations, we found that actual costs of the port visit were unknown until the port visit was completed. The invoices for payment are prepared approximately 1 to 2 days prior to the ship leaving port. However, payment was made, including collection, holding, and transfer, and trash estimates, for the last 2 days of the port visit. This means that payment for collection, holding, and transfer, trash, and some port tariffs were based on estimated amounts. According to the contract we reviewed for port visit observations, if an invoice for an item is not available prior to the ship’s departure, the item shall be listed on the invoice with the words, “To be determined.” Once the invoice has been received and the exact amount is known, the contractor shall issue a supplemental invoice (with all supporting documentation attached) as “final” for the final payment. “To be determined” invoices shall not be paid until a final invoice is submitted. In addition, substantiating invoices were not provided for port tariffs. Per the contract, the contractor shall present all documentation and invoices from other contractors subject to provision of services under the contract.

For the two port visits we observed, we found that ship personnel were unable to validate collection, holding, and transfer amounts offloaded and measurement methods used by the husbanding service provider. The contract does not require the use of a measuring device (e.g. flow meter), only that a measurement is taken. Without flow meters, ships are unable to accurately measure the amount of their collection, holding, and transfer offload. This may lead to ineffective measurement of costs and ships overpaying for services received. Currently, only aircraft carriers have flow meters to measure collection, holding, and transfer and ensure they are being charged correctly by the husbanding service provider. Other types of ships must rely on other means to estimate their collection, holding, and transfer offload. One ship we observed used a timing method to measure its collection, holding, and transfer offload. This involved the ship crew timing the duration the ship was pumping the collection, holding, and transfer off to
the husbanding service provider’s barge. Another ship used a calculation of potable water usage to estimate collection, holding, and transfer, with the rationale that the amount of potable water used by the ship (which can be accurately measured) will ultimately end up as collection, holding, and transfer plus a certain percentage to account for any additional amount taken.

Additionally, for the port visits we observed, the ships were unable to verify the husbanding service provider’s “sounding” measurement technique. The “sounding” method is similar to measuring the oil in a car; a “dip stick” is used to determine the amount of collection, holding, and transfer in the barge prior to and after pumping. To ensure the accuracy of this method, ship personnel must be able to validate barge capacity along with beginning and end levels of collection, holding, and transfer in the barge. We observed that ships were unable to verify the capacity of the barge, or the accuracy of the sounding technique. Ship personnel were unable to board the husbanding service provider’s barge to verify measurement techniques due to safety hazards. Ship personnel had to rely on the husbanding service provider’s word that the barge was empty or full.

Ships without accurate means of measuring their collection, holding, and transfer may rely on comparisons to past port visit costs or amounts stated in their logistics requirements messages. The chief engineers will often overestimate the ships’ collection, holding, and transfer in the logistics requirements message as a precautionary measure to prevent overflow. Per the contract, the husbanding service provider shall accurately measure sewage removed from the ship. According to the contract, the ship duty engineer shall verify in writing the amount of discharged collection, holding, and transfer. The Government reserves the right to use its own metering device to verify measurement of sewage discharge. In addition, the husbanding service provider shall submit, as an attachment to the invoices, a document (certified by the ship’s personnel) that indicates the quantity collected and the name of the disposal plant where the collection, holding, and transfer will be disposed. The Government reserves the right to independently verify the actual volume of collection, holding, and transfer discharged using a certified flow measuring device (Finding 2 contains additional information on this issue).

The contract does not define how barge capacity for trash removal will be determined. For the port visits we observed, ship personnel relied on the husbanding service provider’s word regarding the holding capacity of the trash barge and did not verify the barge capacity. Ships did not receive an accurate and reliable measurement of trash offloaded when using barges at port visits because the method of measurement was an eyeball estimate of how full the barge appeared to be. This may lead to ineffective measurement of costs and ships overpaying [or underpaying] for services received. According to the contract, the husbanding service provider shall submit, as an attachment to the invoices, a document that certifies the quantity collected and the name of the
disposal plant where the trash will be disposed. The husbanding service provider shall be paid based on the actual cubic meters of trash removed except when the actual volume of trash removal is less than 60 cubic meters (per order). In those cases, the contractor shall bill for 60 cubic meters.

**Figure 1: Trash barge along a ship eyeballed for measurement of trash offloaded during a port visit.**

Overall, the conditions noted in this report occurred because the implementation of husbanding contract/task orders lacked effective internal controls and management oversight. As a result, ships may be overpaying for services received. Additionally, there is no accurate assessment of contractor performance, resulting in: (1) the ineffective measurement of costs and quality service; and (2) the possibility of the Government not receiving the best services for the warfighter.

**Recommendations and Corrective Actions**

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

We recommend that Commander, U.S. Pacific Fleet:

**Recommendation 1.** Designate a Contracting Officer’s Representative to support husbanding contracts and monitor husbanding service providers’ performance in accordance with the contracts.

**Management response to Recommendation 1.** Concur. Commander, U.S. Pacific Fleet has directed Commander, Seventh Fleet to nominate a staff member as a Contracting Officer’s Representative to support husbanding contracts and monitor husbanding service providers’ performance in accordance with the contracts. Commander, U.S. Pacific Fleet supports hiring a permanent General Schedule employee under Commander, Seventh Fleet to be located at Fleet
Logistics Center Yokosuka to perform the Contracting Officer’s Representative functions and will execute as resources and authorities become available. Target completion date for Commander, Seventh Fleet to nominate a Contracting Officer’s Representative and have the Contracting Officer’s Representative designated by the Contracting Officer is 30 June 2013.

**Naval Audit Service comment on management’s response to Recommendation 1.** Management’s corrective actions, both implemented and planned, meet the intent of the recommendation. The recommendation remains open pending completion of the agreed-to actions and receipt of supporting documentation.

**Recommendation 2.** Establish guidance to ensure that volume-based services are measured using an objective measurement (e.g., flow meter for liquids and standard barge/bins for trash) and that the method used is effective and verifiable.

**Management response to Recommendation 2.** Partially concur. Collection, Holding, and Transfer flow meters have been successfully installed on all Class V ships and 2 of 6 Class IV ships in the Pacific Fleet. Flow meters are on hand or on order for the remaining 4 Class IV ships. The target completion date for installation of flow meters on the remaining Class IV ships is being determined by the Commander, Naval Surface Forces based on ship maintenance schedules. Completion of this effort is dependent on funding to purchase flow meters for Class III and below ships and the maintenance schedules of those ships. For the final version of the audit, Commander, U.S. Pacific Fleet will consider the flow issue closed.

There is no current satisfactory and accurate method of measuring the trash offload from a ship as barges and bins made available by the husbanding service provider vary in size. To address this recommendation, Commander, U.S. Pacific Fleet has engaged Fleet Logistics Center Yokosuka to change the method by which trash offload services are contracted with the husbanding service provider. Specifically, rather than paying the husbanding service provider by volume of trash removed, the husbanding service provider would be paid a daily rate. This recommended change is being explored as the next regional husbanding service provider contracts are developed. The first of these contracts is expected to be awarded in the latter part of 2014.

**Naval Audit Service comment on management’s response to Recommendation 2.** Although Commander, U.S. Pacific Fleet only partially concurred, management’s corrective actions, both implemented and planned, meet the intent of the recommendation. The recommendation remains open pending completion of the agreed-to actions and receipt of supporting documentation. Because management stated that the contracts will be awarded
in the latter part of 2014, we are establishing a target completion date of 31 December 2014. This date is more than 1 year from the date of publication, so we are establishing an interim target completion date of 31 January 2014.

We recommend that Commander, Naval Supply Systems Command:

**Recommendation 3.** Improve internal controls to review and verify that submitted port visit invoices support documentation are entered into the Logistics Support Services Repository.

**Management response to Recommendation 3.** Concur. Incumbent husbanding service providers performing on the current regional husbanding contracts have been notified via e-mail on 22 March 2013, with additional clarification sent on 16 April 2013. Effective 1 May 2013, all husbanding service providers shall submit all supporting documentation to the Logistics Support Services Repository e-mail account (navsup_hq_logssr@navy.mil), to substantiate or support all submitted/entered invoices. The documentation should include at a minimum: Online Pricing Application quotes; port tariff prices; collection, holding, and transfer offload quantities; DD Forms 1149; DD Forms 1155, etc. In accordance with the current provisions of the contract, these documents shall be submitted to Logistics Support Services Repository within 7 days after the completion of the port visit.

There are three opportunities to ensure that Logistics Support Services Repository entries and uploaded documents are reviewed and verified: (1) by the Logistics Support Services Repository Administrator who verifies that entries are made timely and accurate; (2) by the Contracting Officer or Ordering Officer who verifies Online Pricing Application for accuracy and entries; and (3) by the Contracting Officer’s Representative who verifies that the invoices are for actual services rendered.

Estimated target date for implementation will commence within 60 days upon receipt of a Contracting Officer’s Representative nomination from Commander, Pacific Fleet. Naval Supply Systems Command will ensure that the Contracting Officer’s Representative appointment letter includes sufficient direction to include those functional duties necessary by the Contracting Officer’s Representative for reviewing and validation that the submitted port visit invoices and support documentation by the husbanding service provider are properly entered into the Logistics Support Services Repository. Commander, Pacific Fleet estimated date to provide Contracting Officer’s Representative(s) is 30 June 2013. Naval Supply Systems Command estimated completion date is 28 August 2013.

**Naval Audit Service comment on management’s response to Recommendation 3.** Management’s corrective actions, both implemented and
planned, meet the intent of the recommendation. The recommendation remains open pending completion of the agreed-to actions and receipt of supporting documentation.

We recommend that Commander, U.S. Pacific Fleet in conjunction with Commander, Naval Supply Systems Command:

**Recommendation 4.** Develop procedures to ensure that every supply officer attains access to the Logistics Support Services Repository and uses the resources available. In addition, establish procedures for supply officers (or their staff) to submit port visit documentation to the Logistics Support Services Repository which would limit dependence on husbanding service providers.

**Management responses to Recommendation 4.** Partially concur. Commander, U.S. Pacific Fleet will direct type commanders to ensure that all ship’s supply officers obtain access to the Logistics Support Services Repository and use the resources available. Target completion date for Commander, U.S. Pacific Fleet’s direction to the type commanders to ensure all ship’s supply officers obtain access to Logistics Support Services Repository is 30 June 2013.

Naval Supply Systems Command concurs with the Naval Audit Service that supply officers should have access to the Logistics Support Services Repository database to gain access to historical data, contracts, priced schedules, port tariff costs and training. Access is readily available to all supply officers via their issued common access card and an Internet connection. However, there is no formal policy or instruction from the ships’ operational chain that directs them to obtain access into Logistics Support Services Repository. Naval Supply Systems Command recommends that United States Fleet Forces Command/Commander, U.S. Pacific Fleet via the type commanders, mandate policy requiring supply officers to obtain access to Logistics Support Services Repository. Naval Supply Systems Command estimated completion date is 28 August 2013.

Commander, U.S. Pacific Fleet and Naval Supply Systems Command non-concur with the second part of the recommendation. In accordance with the contract, the husbanding service provider is required to submit port visit information and supporting documentation to Logistics Support Services Repository. Commander, U.S. Pacific Fleet stated that the Contracting Officer’s Representative will, as part of his/her assigned duties, check the husbanding service provider’s documentation in Logistics Support Services Repository for accuracy and completeness.

**Naval Audit Service comment on management’s responses to Recommendation 4.** Although, Commander U.S. Pacific Fleet and Commander, Naval Supply Systems Command only partially concurred and stated that the Contracting Officer’s Representative will, as part of their
assigned duties, “check the husbanding service provider’s documentation in Logistics Support Services Repository for accuracy and completeness,” this planned procedure meets the intent of the recommendation and will provide an internal control to verify accuracy of contractor’s Logistics Support Services Repository data input. The recommendation remains open pending completion of the agreed-to actions and receipt of supporting documentation.

**Recommendation 5.** Conduct Contractor Performance Assessment Reporting reviews for task orders in accordance with the Department of Defense Contractor Performance Assessment Reporting System guidance.

**Management responses to Recommendation 5.** Concur. Commander, U.S. Pacific Fleet’s response is that the Commander Seventh Fleet Contracting Officer’s Representative will provide this function. The designated Contracting Officer’s Representative will be responsible for conducting contractor performance assessment reporting reviews in accordance with the Department of Defense Contractor Performance Assessment Reporting System policy. Completion of the Contractor Performance Assessment Reporting System reviews will be conducted annually. Target completion date for the annual Contractor Performance Assessment Reporting System reviews for 2013 is 31 December 2013.

Naval Supply Systems Command has elected to do one Contractor Performance Assessment Reporting System review annually. Naval Supply Systems Command agrees with the Naval Audit Service recommendation for Commander, U.S. Pacific Fleet to nominate Contracting Officer’s Representative for husbanding contracts in order to ensure that task orders are reviewed in accordance with the Department of Defense Contractor Performance Assessment Reporting System policy, which will be used by the Naval Supply Systems Command Contracting Officer to substantiate the annual Contractor Performance Assessment Reporting System review. Commander, U.S. Pacific Fleet estimated date to provide Contracting Officer’s Representative(s) is 30 June 2013. Naval Supply Systems Command estimated completion date is 28 August 2013.

**Naval Audit Service comment on management’s responses to Recommendation 5.** Management’s corrective actions, both implemented and planned, meet the intent of the recommendation. The recommendation remains open pending completion of the agreed-to actions and receipt of supporting documentation.

**Recommendation 6.** Improve internal controls over the supply and service approval and invoice payment and reconciliation processes to ensure that payments made at the time of ship departure are accurate and supportable, or adjusted as necessary.
Management responses to Recommendation 6. Commander, U.S. Pacific Fleet’s response: partially concur. Sufficient internal controls exist in various directives, references, and guidance documents to ensure ship’s supply officers only pay invoices that are accurate and supportable. The weakness as identified in the audit represents failure to adhere to prescribed procedures. Commander, U.S. Pacific Fleet, in conjunction with Fleet Logistics Center Yokosuka and the Type Commanders, has developed a “Supply Officer Port Visit Checklist” to ensure the supply officer adheres to established guidance. This checklist includes specific actions the supply officer should take when reconciling invoices to ensure that payments are accurate and supportable. Additionally, Commander, U.S. Pacific Fleet will reiterate to each supply officer via naval message the appropriate references to follow to ensure only final invoices are paid as well as the procedures to follow for any disputed or non-final invoices. Target completion date for the implementation of the supply officers’ port visit checklist and the issuance of the Naval message is 31 July 2013.

Naval Supply Systems Command’s response: concur. Naval Supply Systems Command husbanding service provider contract language provides sufficient guidance. The weakness identified represents a failure to adhere to prescribed procedures. Naval Supply Systems Command will work with Commander, U.S. Pacific Fleet to ensure prescribed guidance is widely disseminated to ordering officers authorized to place task orders against the husbanding service providers contracts. In addition to the methods used by Commander, U.S. Pacific Fleet, Naval Supply Systems Command will reiterate prescribed guidance for invoice approval, payment and reconciliation on Logistics Support Services Repository. Commander, U.S. Pacific Fleet estimated date to provide Contracting Officer’s Representative(s) is 30 June 2013. Naval Supply Systems Command estimated completion date is 28 August 2013.

Naval Audit Service comment on management’s responses to Recommendation 6. Although Commander, U.S. Pacific Fleet only partially concurred, corrective actions, both implemented and planned, meet the intent of the recommendation. The Commander, U.S. Pacific Fleet will develop the “Supply Officer Port Visit Checklist” to ensure the supply officer adheres to established guidance, and reiteration to each supply officer via Naval message about the appropriate references to follow to ensure only final invoices are paid as well as the procedures to follow for any disputed or non-final invoices, meet the intent. The recommendation remains open pending completion of the agreed-to actions and receipt of supporting documentation.
Finding 2: Husbanding Contracts Internal Controls Followup

Synopsis

Our review of the recommendations from Naval Audit Service Report N2010-0044 found that opportunities still exist to improve NAVSUP’s internal controls and oversight. The internal review procedures, invoice reconciliation process, and management control program still need strengthening to fully comply with Federal regulations and implement husbanding contracts in the most effective manner. These conditions occurred because many husbanding task orders were not included in any internal review, and implemented corrective actions were not functioning to meet the intent of the original recommendations. As a result, husbanding contracts/actions were vulnerable to misuse, fraud, waste, and abuse.

Discussion of Details

Background

Maritime husbanding support is defined as: providing supplies and services in support of Naval forces within a port area. The primary objective of the husbanding contracts is to obtain maritime husbanding support for U.S. Navy ships and other Government agencies supporting ship visits at non-Navy ports overseas. In addition, the contract may be used to support “Operations Other Than War” in a respective region. Husbanding service providers coordinate services needed by ships relating to the port visit. Husbanding service providers’ contracts are limited in scope to areas such as: charter and hire, fuel, anti-terrorism/force protection, and provisions.

Husbanding is an inherently risky area, as it involves ships entering non-Navy ports, regularly without Navy presence. Furthermore, personnel may lack experience working with husbanding service providers. Because of this, there should be an increase in internal controls over the process to ensure that a fair and reasonable price is provided to the Government for services received.

Naval Audit Service issued report N2010-0044, “Acquisition Checks and Balances at Selected Navy and Marine Corps Activities in the Western Pacific,” dated 22 July 2010. In that report, recommendations were issued to NAVSUP regarding husbanding contracts. This finding is a followup on the corrective actions agreed to in response to those recommendations.

For additional background information, see Exhibit A.
Pertinent Guidance

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

Subpart 4.8, “Government Contract Files,” prescribes requirements for establishing, maintaining, and disposing of contract files. The head of each office performing contracting, contract administration, or paying functions shall establish files containing the records of all contractual actions. It states that the documentation in the contract files shall be sufficient to constitute a complete history of the transaction by: (1) providing a complete background as a basis for informed decisions at each step in the acquisition process; (2) supporting actions taken; (3) providing information for reviews and investigations; and (4) furnishing essential facts in the event of litigation or Congressional inquiries.

Section 4.802 states that a contract file should generally consist of: (1) the contracting office contract file that documents the basis for the acquisition and the award, the assignment of contract administration, and any subsequent actions taken by the contracting office; (2) the contract administration office contract file that documents actions reflecting the basis for and the performance of contract administration responsibilities; and (3) the paying office contract file that documents actions prerequisite to, substantiating, and reflecting contract payments.

For additional pertinent guidance, see Exhibit C.

Audit Results

A prior Naval Audit Service Report, N2010-0044, “Acquisition Checks and Balances at Selected Navy and Marine Corps Activities in the Western Pacific,” dated 22 July 2010, reported that husbanding contracts lacked effective management and oversight. This condition existed because:

- Contracting offices had insufficient internal controls and operating procedures;
- There was an over-reliance on husbanding service providers to procure goods; and
- Services were not priced in the contracts.

As a result, ships may have been overpaying and procuring items not needed or properly negotiated, and future husbanding contracts may rely on inaccurate historical contract data.

Our review of the seven recommendations related to the “Husbanding Contracts” finding from N2010-0044 found that not all prior recommendations were fully met due to
insufficient internal controls and operating procedures. As a result, 7th Fleet husbanding contracts/task orders may have been vulnerable to fraud, waste, and abuse.

**Recommendations 16 and 17: Repeat Finding**

**Recommendation 16.** Establish effective internal controls and operating procedures for solicitation, award, management, administration, and reconciliation oversight of husbanding contracts.

**Recommendation 17.** Establish controls to provide sufficient oversight of husbanding contracts.

The NAVSUP internal review process concluded that the Procurement Performance Management Assessment Program and the Quality Assurance Self Assessment were the means for ensuring proper oversight of the husbanding contract process. The Procurement Performance Management Assessment Program is a flexible, performance-based, process-oriented program that includes self-assessment of an activity’s control of and continuous improvement in critical procurement processes, their performance-based metrics, and the results of employee and customer surveys. Included in this is the Quality Assurance Self Assessment, which is a self assessment program that measures management of contracts and includes samples of contracts. We found that most husbanding contract task orders are not captured within the self assessment’s sampling methodology because the Quality Assurance Self Assessment samples are pulled from the Standard Procurement System. The Standard Procurement System program was initiated to acquire and deploy a single automated system to perform all contract management-related functions for all DoD organizations. However, our audit concluded that most task orders issued against the husbanding contracts are not entered into the Standard Procurement System. Only port visits executed by NAVSUP are included in the system for potential sampling; port visits executed by the ships are not included in this system. These task orders are not entered into the Standard Procurement System because the Fleet is not a contract activity. Therefore, the husbanding contracts have a very limited chance of being completely reviewed within the Quality Assurance Self Assessment process, thus weakening the internal control environment.

Another means of control and oversight was the use of the Logistics Support Services Repository as a central repository for all port visit documentation. Documentation is sent by the husbanding service provider to the system e-mail address after the port visit. This documentation includes Logistics Requirements messages, pre-visit cost estimates, invoices, and other supporting documentation. This information is supposed to be posted to the Logistics Support Services Web site. The husbanding service provider also uploads the final cost report in the system, which NAVSUP validates to the supporting invoices. We found that as of February 2011 documentation could not be entered into the Logistics Support Services Repository; therefore, this information had to be requested.
from the NAVSUP contractor responsible for validating the information. In addition, the contents received via e-mail did not meet all requirements of the contract. After review of documentation received, all the port visits sampled included the required invoices; however, some files were missing logistics requirements messages and pre-visit cost estimates. Although not required by the contract to be submitted to the Logistics Support Services Repository, most port visits sampled had no disbursement information, which would have assisted in verifying amounts paid for port visits. Disbursement or voucher payments are generally considered part of port visit documentation. Also, although not directly associated with the Logistics Support Services Repository, copies of quotes for non-contract line items were not maintained in the contract file. Per Federal Acquisition Regulation, Part 4, Subpart 8, copies of quotes should be maintained in the contract file as part of contract file management. This documents the record of review and approval of line items not pre-priced in the contract.

**Recommendations 18 and 19: Implemented**

**Recommendation 18.** Establish controls to ensure ship supply officers are provided a comprehensive catalog containing negotiated contract line items for husbanding contracts.

We verified that the Logistics Support Services Repository provides visibility to husbanding contracts and modifications (including pricing schedules) and is accessible to all authorized Navy personnel with a Common Access Card. The system also provides various training that can assist supply officers in preparing for port visits, how to navigate the process, and interactions with the husbanding service provider.

**Recommendation 19.** Review and negotiate non-contract line items that are repetitively procured, and modify existing husbanding contracts accordingly.

We verified that Fleet Logistics Center Yokosuka has implemented a policy to conduct quarterly reviews on repetitively procured non-contract line items. A spreadsheet is maintained on these items and reviewed for possible inclusion in the contract.

If a non-contract line item is procured at least three times for the same port regardless of the type of ship, the repetitively procured non-contract line item is brought to the husbanding service provider’s attention at the Quarterly Assurance Surveillance Plan meeting so that these items can be incorporated as contract line items in the regional husbanding contracts.

**Recommendations 20, 21, and 22: Partially Implemented**

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18 The ability to enter information into the Logistics Support Services Repository was reinstated October 2012.
**Recommendation 20.** Establish procedures to ensure contracting personnel are actively involved in the cost reconciliation process of husbanding contracts and retain copies of invoices in the contract files or capture invoice information in a system to which Fleet and Industrial Supply Center\(^{19}\) personnel have visibility.

While NAVSUP is maintaining copies of invoices with the Logistics Support Services Repository system, contracting personnel perform cost reconciliations only for certain port visits, such as Cooperation Afloat Readiness and Training exercises. The Cooperation Afloat Readiness and Training exercises are an annual series of bilateral military training exercises between the United States and several Southeast Asian countries. These exercises are executed by the Fleet Logistics Center, and the contracting officers are onsite to support the mission. This includes assisting the supply officer with reconciling the husbanding service provider invoices. However, we found that most port visits are executed by the ships, and there is no cost/invoice reconciliation performed by contracting personnel for these port visits. Invoice reconciliation is performed by the supply officer on the ship prior to leaving port; however, contracting personnel can assist as they usually have more knowledge of the contract. The Fleet Logistics Center Detachment Singapore has identified $273,807.83 of cost savings and $1,702,410.76 of cost avoidance when the contracting officers deploy during the Cooperation Afloat Readiness and Training exercises. When contracting officers are deployed, they are acting in the role of a Contracting Officer’s Representative, in addition to performing contracting officer support. A task of the Contracting Officer’s Representative that is currently not being performed during routine port visits is “review and reconciliation of [husbanding service provider] invoices, vouchers, and other supplemental billing documentation prior to the afloat unit departure.”

**Recommendation 21.** Include in future husbanding contracts a requirement to measure liquids being off-loaded from ships, such as the use of a flow meter.

Based on our review of the new regional contracts, the requirement to measure liquid offloads was included as recommended. Additionally, the contracts state that the husbanding service provider shall accurately measure the amount offloaded and include a statement with the invoice of the method used. However, none of the contracts provided guidance on acceptable methodologies. Specifically for collection, holding, and transfer, we found: sampled invoices did not include the measurement method; methodologies differed from ship to ship (i.e., timing method, calculations of potable water); and engineers could not verify husbanding service providers’ measurements as required by the contract. Also, the contracts did not require the ship to keep its own measurement of collection, holding, and transfer offload or specify a method to do so; ships were simply required to “verify the amount of discharged collection, holding, and transfer.” This creates situations where there may be a significant amount of negotiation between the husbanding service provider and ships when determining the final cost of collection,

\(^{19}\) Fleet and Industrial Supply Center was renamed the Fleet Logistics Center as of July 2011.
holding, and transfer offload. Husbanding service providers and ships are using various methods of measuring collection, holding, and transfer offload (which cannot be validated by either party), resulting in significant differences in these measurements. We found that only aircraft carriers use the recommended method of flow meters. According to ship engineering personnel, the most accurate way of measuring liquids would be through the use of a flow meter. If the ships cannot take an accurate measurement, they cannot validate the accuracy of the measurement provided by the husbanding service provider. At this time, only estimates can be provided for collection, holding, and transfer for ships that do not have a flow meter. During our port visit in Hong Kong, we asked the husbanding service provider how the ship could verify the amount offloaded. They stated, “You have to trust us.” The inability of ships without flow meters to accurately measure their offload may lead to ships significantly overpaying for this service by relying on husbanding service provider measurements. Volume-based services, especially collection, holding, and transfer, can be one of the highest cost drivers for a port visit. During the scope of our audit, there were 239 port visits, with a total collection, holding, and transfer cost of approximately $3 million. However, we could not verify the accuracy of those charges because most vessels lack a method to accurately measure the amounts offloaded. Accurate measurements are crucial and can result in large cost savings for DON.

**Recommendation 22:** Establish husbanding contracts as part of a contract assessable unit in the Management Control Program.

According to NAVSUP, contracting for husbanding services was included in the “procurement management” assessable unit in the Management Control Program. The Naval Audit Service requested a copy of the Fiscal Year 2011 Management Control Program to determine how husbanding was included. The documentation provided displayed husbanding contracts as being covered in NAVSUP’s Procurement Performance Management Assessment Program internal control review, which is a part of their Management Control Program. While we could determine how husbanding was included in the Management Control Program, our testing showed that most husbanding contract actions are not included in the Procurement Performance Management Assessment Program sampling methodology. The only husbanding actions covered by the assessment program are NAVSUP-executed port visits (i.e., Cooperation Afloat Readiness and Training). In order to have effective internal controls over the husbanding process, all husbanding contract actions should be in the sample universe. Therefore, although husbanding is included in the Management Control Program, the recommendation was not effectively implemented.

We are making recommendations to NAVSUP because we found that the corrective actions from the N2010-0044 report were not fully implemented due to insufficient internal controls and operating procedures.
Recommendations and Corrective Actions

We recommend that Commander, Naval Supply Systems Command:

**Recommendation 7.** Establish internal controls to provide sufficient oversight of all task orders issued against husbanding contracts (i.e., include task orders issued by the ship in the Procurement Performance Management Assessment Program/Quality Assurance Self Assessment review process).

**Management response to Recommendation 7.** Concur. Naval Supply Systems Command concurs and instituted a requirement for the Naval Supply Systems Command Procurement Performance Management Assessment Program to review 100 percent of all task orders issued by Fleet Logistics Center as a Special Interest item during the normal Procurement Performance Management Assessment Program review process. However, task orders placed by afloat units are the responsibility of the type commanders per Naval Supply Systems Command Instruction. As such, it is incumbent upon the type commanders to already have in place established management controls for inspections, assessments, and reports designed to ensure that policy and regulations are followed. As a result of Navy Marine Corps Acquisition Regulation Supplement Change 08-13, Naval Supply Systems Command as the head of contracting activity is responsible for Procurement Performance Management Assessment Program operations performed within the head of contracting activity. As a result of this most recent change, the Naval Supply Systems Command instruction will be updated to ensure that the type commanders’ Logistics Management Assessments (LMA) reviews are also inclusive of those actions by afloat units’ delegated ordering officer, and simplified acquisition procurements are reviewed. The estimated completion date is 31 January 2014.

**Naval Audit Service comment on management’s response to Recommendation 7.** Management’s corrective actions, both implemented and planned, meet the intent of the recommendation. The recommendation remains open pending completion of the agreed-to actions and receipt of supporting documentation.

**Recommendation 8.** Establish procedures to ensure contracting personnel are actively involved in the cost reconciliation process of all husbanding contracts.

**Management response to Recommendation 8.** Concur. All Naval Supply Systems Command husbanding contracts provide guidance for invoicing and payment procedures for husbanding service provider vendors and those activities authorized to place task orders against the husbanding service provider contract. The husbanding service provider contract language provides sufficient guidance.
The weaknesses identified represent a failure of those activities authorized to place task orders, to follow prescribed procedures. For reconciliation of husbanding task orders, the initial burden of reconciliation primarily falls upon the activity placing the order. Receipt of goods/services, invoice certification for payment under husbanding contracts, and reconciliation of invoices, are the receiving customers’ responsibility. Again, customers having appointed Contracting Officer’s Representative(s) will allow someone to be readily available who can intervene early with invoice reconciliation process should there be a dispute. Naval Supply Systems Command concurs that the Contracting Officer can assist with any resolution and reconciliation of any unsettled challenged and disputed costs/invoices. Ultimately, the onus is on the ship to assist the Contracting Officer’s Representative by substantiating any disputed costs/invoices at the onset by not accepting or making payments for any services/supplies that were not provided.

Naval Supply Systems Command, in coordination with those Echelon II Commands whose subordinate commands are authorized to place orders against Naval Supply Systems Command husbanding service provider contracts, shall be made aware of the process to reconcile disputed invoices. Naval Supply Systems Command will ensure that the Contracting Officer’s Representative’s appointment letter includes sufficient direction to include those functional duties as necessary for a Contracting Officer’s Representative to review invoices, payments disbursed, and reconciliation of any disputed invoices, and forward those invoices that are unable to be resolved per the contract, to the Contracting Officer for final adjudication. Commander, U.S. Pacific Fleet estimated date to provide Contracting Officer’s Representative(s) is 30 June 2013. Naval Supply Systems Command estimated completion date is 28 August 2013.

**Naval Audit Service comment on management’s response to Recommendation 8.** Management’s corrective actions, both implemented and planned, meet the intent of the recommendation. The recommendation remains open pending completion of the agreed-to actions and receipt of supporting documentation.

**Recommendation 9.** Improve internal controls to ensure that liquid offload measurements (i.e., collection, holding, and transfer) are accurately calculated and that all husbanding service provider invoices include a written statement that describes the method used to determine the amount offloaded from the ship.

**Management response to Recommendation 9.** Concur. The type commanders have committed to equipping the ships with flow meters to measure the volume of collection, holding, and transfer offloaded. Furthermore, the husbanding service provider is now required to submit supporting documentation in Logistics Support Services Repository to substantiate volume of collection, holding, and transfer
offloaded and disposed, including a statement in the invoice/document describing the method of measurement used to measure the volume of collection, holding, and transfer. Additionally, Naval Supply Systems Command Publication 740 Husbanding (draft) guide provides guidance to Fleet Logistics Center husbanding service provider contracting offices that husbanding service provider contracts are to include language in husbanding contracts requiring the husbanding service provider to accurately measure collection, holding, and transfer removed from the ship using a properly certified calibrated flow metering device as well as requiring the ship’s duty engineer to verify, in writing, the amount of discharged collection, holding, and transfer while reserving the Government’s right to use its own metering device to verify measurement of sewage discharge. The husbanding service provider shall include a written statement with the invoice package describing the method used to determine the liquid quantities off-loaded from the ship. Target date for completion, including additional information as required for measuring of offloads/on-loads to be included in Naval Supply Systems Command Publication 740, is 31 January 2014.

**Naval Audit Service comment on management’s response to Recommendation 9.** Management’s corrective actions, both implemented and planned, meet the intent of the recommendation. The recommendation remains open pending completion of the agreed-to actions and receipt of supporting documentation.
# Section B: Status of Recommendations

<table>
<thead>
<tr>
<th>Finding</th>
<th>Rec. No.</th>
<th>Page No.</th>
<th>Subject</th>
<th>Status</th>
<th>Action Command</th>
<th>Target or Actual Completion Date</th>
<th>Interim Target Completion Date</th>
</tr>
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<tbody>
<tr>
<td>1</td>
<td>1</td>
<td>14</td>
<td>Designate a Contracting Officer’s Representative to support husbanding contracts and monitor husbanding service providers' performance in accordance with the contracts.</td>
<td>O</td>
<td>Commander, U.S. Pacific Fleet</td>
<td>6/30/2013</td>
<td></td>
</tr>
<tr>
<td>1</td>
<td>2</td>
<td>15</td>
<td>Establish guidance to ensure that volume-based services are measured using an objective measurement (e.g., flow meter for liquids and standard barge/bins for trash) and that the method used is effective and verifiable.</td>
<td>O</td>
<td>Commander, U.S. Pacific Fleet</td>
<td>12/31/14</td>
<td>1/31/14</td>
</tr>
<tr>
<td>1</td>
<td>3</td>
<td>16</td>
<td>Improve internal controls to review and verify that submitted port visit invoices support documentation are entered into the Logistics Support Services Repository.</td>
<td>O</td>
<td>Commander, Naval Supply Systems Command</td>
<td>8/28/13</td>
<td></td>
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<tr>
<td>1</td>
<td>4</td>
<td>17</td>
<td>Develop procedures to ensure that every supply officer attains access to the Logistics Support Services Repository and uses the resources available. In addition, establish procedures for supply officers (or their staff) to submit port visit documentation to the Logistics Support Services Repository which would limit dependence on husbanding service providers.</td>
<td>O</td>
<td>Commander, U.S. Pacific Fleet and Commander, Naval Supply Systems Command</td>
<td>8/28/13</td>
<td></td>
</tr>
<tr>
<td>1</td>
<td>5</td>
<td>18</td>
<td>Conduct Contractor Performance Assessment Reporting reviews for task orders in accordance with the Department of Defense Contractor Performance Assessment Reporting System guidance.</td>
<td>O</td>
<td>Commander, U.S. Pacific Fleet and Commander, Naval Supply Systems Command</td>
<td>8/28/13</td>
<td></td>
</tr>
</tbody>
</table>

20 / + = Indicates repeat finding.  
21 / 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.  
22 If applicable.
<table>
<thead>
<tr>
<th>Finding No.</th>
<th>Rec. No.</th>
<th>Page No.</th>
<th>Subject</th>
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<th>Interim Target Completion Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>6</td>
<td>18</td>
<td>Improve internal controls over the supply and service approval and invoice payment and reconciliation processes to ensure that payments made at the time of ship departure are accurate and supportable, or adjusted as necessary.</td>
<td>O</td>
<td>Commander, U.S. Pacific Fleet and Commander, Naval Supply Systems Command</td>
<td>8/28/13</td>
<td></td>
</tr>
<tr>
<td>2+</td>
<td>7</td>
<td>26</td>
<td>Establish internal controls to provide sufficient oversight of all task orders issued against husbanding contracts (i.e., include task orders issued by the ship in the Procurement Performance Management Assessment Program/Quality Assurance Self Assessment review process).</td>
<td>O</td>
<td>Commander, Naval Supply Systems Command</td>
<td>1/31/14</td>
<td></td>
</tr>
<tr>
<td>2+</td>
<td>8</td>
<td>26</td>
<td>Establish procedures to ensure contracting personnel are actively involved in the cost reconciliation process of all husbanding contracts.</td>
<td>O</td>
<td>Commander, Naval Supply Systems Command</td>
<td>8/28/13</td>
<td></td>
</tr>
<tr>
<td>2+</td>
<td>9</td>
<td>27</td>
<td>Improve internal controls to ensure that liquid offload measurements (i.e., collection, holding, and transfer) are accurately calculated and that all husbanding service provider invoices include a written statement that describes the method used to determine the amount offloaded from the ship.</td>
<td>O</td>
<td>Commander, Naval Supply Systems Command</td>
<td>1/31/14</td>
<td></td>
</tr>
</tbody>
</table>
Naval Supply Systems Command’s mission is “to deliver combat capability through logistics.” Naval Supply Systems Command manages the Navy’s supply system and provides material support for Navy surface ships, submarines, aircraft, and expeditionary forces.

The primary purpose of husbanding contracts is to provide supplies and services in support of U.S. Navy vessels making port calls in non-Navy ports, with additional support for Military Sealift Command and U.S. Coast Guard ships. Husbanding contracts are awarded by Naval Supply Systems Command Global Logistics Support23 (i.e., Naval Supply Systems Command Fleet Logistics Center Yokosuka for the 7th Fleet). The husbanding contracts are divided by Navy regions to support the Fleet in and outside the continental United States. Support is provided by husbanding service providers under contract. Typical services include: charter and hire, utilities (including collection, holding and transfer24), passenger vehicle services, communications, anti-terrorism/force protection, and port handling services. The husbanding contracts within the Fleet Logistics Center Yokosuka, Japan area of responsibility were divided into four regions, which are South Asia, Southeast Asia, Australia and the Pacific Islands, and East Asia. The award of regionalized husbanding contracts began in June 2011. Three of the four regional husbanding contracts are administered by Fleet Logistics Center Detachment Singapore with one contract administered by Fleet Logistics Center Yokosuka. In addition, there are two contracts that are not regionalized: (1) Brunei, Indonesia, Malaysia, and East Timor contract administered by Fleet Logistics Center Detachment Singapore; and (2) South Korea contract administered by Fleet Logistics Center Yokosuka.

Naval Supply Systems Command Fleet Logistics Center Yokosuka, an Echelon IV command under the Naval Supply Systems Command Global Logistics Support command, headquartered in San Diego, CA, is the Western Pacific region’s largest U.S. Navy logistics command. Naval Supply Systems Command Fleet Logistics Center Yokosuka’s mission is to provide logistics solutions for Navy, Marine Corps, Joint and Allied Forces operating in the 7th Fleet area of responsibility in support of national defense strategies.

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23 Naval Supply Systems Command Global Logistics Support, headquartered in San Diego, CA, provides worldwide integrated logistics and contracting services to Navy and Joint operational units across all warfare enterprises, and base supply functions at 70 shore locations.

24 Collection, holding, and transfer is the bacteriological and chemical liquids/waste that are offloaded from the vessel during port visits.
The Naval Supply Systems Command Fleet Logistics Center Yokosuka enterprise includes more than 20 detachments, sites, and fuel terminals from Misawa, Japan to Sydney, Australia; and Diego Garcia in the Indian Ocean to Guam. Together, these detachments and sites provide logistics support for the Navy, Marine Corps, and other DoD and Federal activities within the 7th Fleet area of responsibility. The area of responsibility for the 7th Fleet includes more than 48 million square miles from the Kuril Islands in the north to the Antarctic in the south, and from the International Date Line to the 68th meridian east, which runs south from the India-Pakistan border. There are seven divisions within the Far East Contracting Division that are located within eight contracting sites in: (1) Yokosuka, Japan; (2) Singapore; (3) Sasebo, Japan; (4) Atsugi, Japan; (5) Okinawa, Japan; (6) Hong Kong; (7) Chinhae, Korea; and (8) Manila, Philippines.

As a customer of husbanding contracts, Commander, 7th Fleet is embarked aboard the USS Blue Ridge (LCC 19), forward deployed to Yokosuka, Japan. The flagship commands and controls the fleet, and fosters military-to-military relationships through scheduled port visits and military exercises. Commander, 7th Fleet is a subordinate of the U.S. Pacific Fleet. Commander, Pacific Fleet has an impact on the husbanding services contracts, first as the requirements generator or customer, and second as the senior Navy organization (4 Stars) in the Pacific area.

Supply officers aboard ships have limited contracting authority delegated from Naval Supply Systems Command. The type commanders (Commander Naval Air Forces; Commander, Surface Forces; and Commander, Submarine Forces) fund the ships’ port visits and report to the Pacific Fleet.
Exhibit B:

Scope and Methodology

Our audit was conducted from 27 February 2012 to 11 April 2013. Our audit universe consisted of 239 port visits, valued at approximately $50.1 million. These port visits occurred from 1 October 2010 to 19 April 2012 from 6 husbanding contracts. The 6 husbanding contracts in our audit universe consisted of 4 regional contracts (Region 1 South Asia, Region 2 Southeast Asia, Region 3 Australia and the Pacific Islands, and Region 4 East Asia); the Brunei, Indonesia, Malaysia, and East Timor contract; and the South Korea contract. During March 2012, the Brunei, Indonesia, Malaysia, and East Timor contract was converted to a contract for Port Klang, Malaysia, and, in June 2012, the South Korea contract was included as part of the Region 4 East Asia contract.

We judgmentally selected a sample of 49 port visits, valued at approximately $25.5 million, which covers port visits from all contracts and ship classes in our audit universe. Our sample was selected based on high-dollar value, ship class, and number of port visits that occurred in each contract.

<table>
<thead>
<tr>
<th>CONTRACT</th>
<th>UNIVERSE $ Obligated</th>
<th># of Port Visits</th>
<th>SAMPLE $ Obligated</th>
<th># of Port Visits</th>
</tr>
</thead>
<tbody>
<tr>
<td>Region 1</td>
<td>$1,666,618.25</td>
<td>10</td>
<td>$946,486.51</td>
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</tr>
<tr>
<td>Region 2</td>
<td>$26,271,591.36</td>
<td>123</td>
<td>$12,976,719.04</td>
<td>18</td>
</tr>
<tr>
<td>Region 3</td>
<td>$1,346,991.31</td>
<td>6</td>
<td>$871,304.81</td>
<td>2</td>
</tr>
<tr>
<td>Region 4</td>
<td>$600,714.28</td>
<td>7</td>
<td>$358,782.50</td>
<td>3</td>
</tr>
<tr>
<td>BIMET*</td>
<td>$15,671,063.21</td>
<td>40</td>
<td>$7,912,937.53</td>
<td>10</td>
</tr>
<tr>
<td>South Korea</td>
<td>$4,578,850.67</td>
<td>53</td>
<td>$2,415,500.44</td>
<td>12</td>
</tr>
<tr>
<td><strong>GRAND TOTAL</strong></td>
<td><strong>$50,135,829.08</strong></td>
<td><strong>239</strong></td>
<td><strong>$25,481,730.83</strong></td>
<td><strong>49</strong></td>
</tr>
</tbody>
</table>

*BIMET is the Brunei, Indonesia, Malaysia, and East Timor contract.

Our sample was tested for: (1) invoice compliance with contract; (2) proper supply officer approval threshold of non-contract line items;25 (3) port visit documentation in the Logistics Support Services Repository26 according to contract requirements; (4) total port visit costs in the Logistics Support Services Repository substantiated by invoices; and (5) proper contract line item27 charges according to the contract.

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25 Non-contract line items, also known as non-priced items, are products or services that are not pre-priced in the contract, but fall within the scope of the contract. Non-priced items must be determined to be fair and reasonable by a contracting officer or supply officer. Supply officers only have the authority to approve non-priced items below $25,000.

26 The Logistics Support Services Repository is the database that has information for all port visits using husbanding contracts and is a critical tool for planning port visits.

27 A contract line item is a funded line for a contract against a specific service. Most contracts break down contract line items by types of service and funding associated with the service.
Additionally, we observed two port visits during a site visit in Hong Kong. We observed port operations onboard two Navy vessels. These operations included receipt of services, invoice reconciliation processes, security operations, and Government and ship personnel interaction with the husbanding service provider.  

Audit work was performed at Naval Supply Systems Command (NAVSUP) Fleet Logistics Center, Yokosuka, Japan; NAVSUP Fleet Logistics Center Yokosuka Detachment, Hong Kong; and NAVSUP Fleet Logistics Center Yokosuka Detachment Singapore. The following commands were also contacted: Commander, U.S. Pacific Fleet (COMPACFLT); Commander, 7th Fleet; Commander, Naval Air Forces, Pacific; Commander, Naval Surface Forces, Pacific; Command Task Force 70; Command Task Force 73; Command Task Force 74; and Command Task Force 76.

We gathered data from the Logistics Support Services Repository and On-line Pricing Application systems and tested it against contract requirements, Fleet Logistics Center documentation, and ship documentation to verify the reliability. We found that the Logistics Support Services Repository and On-line Pricing Application systems appear to be of undetermined reliability due to significant reliance on contractor submission of documentation with limited Government oversight. We concluded that data retrieved from these systems were acceptable to be used in this audit due to the ability of documentation to be validated through Fleet Logistics Center and ship port visit records.

We evaluated internal controls at NAVSUP and COMPACFLT by reviewing their Manager’s Internal Control Program, policies and procedures, and information systems. We also reviewed the husbanding contract process in compliance with regulations.

We conducted this performance audit in accordance with Generally Accepted Government Auditing Standards. Those standards require 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.

Naval Audit Service issued report N2010-0044, “Acquisition Checks and Balances at Selected Navy and Marine Corps Activities in the Western Pacific,” dated 22 July 2010. In that report, recommendations were issued to NAVSUP regarding husbanding contracts. Finding 2 of this report is a followup on those corrective actions.

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28 A husbanding service provider provides or coordinates for the delivery or performance of supplies or services. The provider charges a contractually agreed upon price for supplies/services originally priced in the contract, and facilitates the ship in finding potential sources for supplies/services not priced in the contract.

29 The Online Pricing Application is a contractor owned and operated system required to assist the Government in the estimating, tracking, forecasting and reporting of maritime husbanding support non-priced services. The Online Pricing Application assists the Ordering Officer or Contracting Officer with requests for non-priced supplies and services and implements the process for review and approval of non-priced item purchases.
Exhibit C:

Pertinent Guidance

Public Laws, Federal Regulations, and Related Guidance

Office of Management and Budget Circular A-123, “Management’s Responsibility for Internal Control,” dated 21 December 2004. The circular states that management is responsible for establishing and maintaining internal controls to achieve the objectives of effective and efficient operations, reliable financial reporting, and compliance with applicable laws and regulations. Effective internal controls provide assurance that significant weaknesses in the design or operation of internal controls that could adversely affect the agency’s ability to meet its objectives, would be prevented or detected in a timely manner. Management is responsible for developing and maintaining internal control activities that comply with the following standards to meet the above objectives: control environment, risk assessment, control activities, information and communications, and monitoring.

Federal Acquisition Regulation, dated March 2005. In accordance with the Federal Acquisition Regulation, files must be maintained at organizational levels that ensure: effective documentation of contract actions; ready accessibility to principal users; minimal establishment of duplicate and working files; the safeguarding of classified documents; and conformance with agency regulations for file location and maintenance. The contracting office shall follow up on each non-priced order to ensure timely pricing. In addition, contracting offices are responsible for ensuring that nonconformances are identified, and establishing the significance of a nonconformance when considering the acceptability of supplies and services which do not meet contract requirements. The contracting officer or the contracting officer’s designated representative shall review the invoice price and, if reasonable, process the invoice for payment. The activity responsible for technical requirements is responsible for prescribing contract quality requirements, such as inspection. When a contract is assigned for administration to the contract administration office cognizant of the contractor’s plant, that office shall: (1) develop and apply efficient procedures for performing Government contract quality assurance actions; (2) perform all actions necessary to verify whether the supplies or services conform to contract quality requirements; (3) maintain contractor’s performance records; (4) implement any specific written instructions from the contracting office; (5) report to the contracting office any defects observed in design or technical requirements, including contract quality requirements; and (6) recommend any changes necessary to the contract, specifications, instructions, or other requirements that will provide more effective operations or eliminate unnecessary costs. The Government contract quality assurance shall be performed at such times and places as may be necessary to determine that the supplies or services conform to contract requirements.
Department of Defense (DoD) Guidance

DoD “Contracting Officer’s Representative Handbook,” dated 22 March 2012. According to the handbook, DoD policy states that the requiring activity participate in nominating Contracting Officer’s Representatives and assessing performance of their responsibilities. In addition, the requiring activity, coordinating with the contracting office, is responsible for developing contract quality assurance, surveillance, and performance assessment plans. Typical Contracting Officer’s Representative tasks include ensuring the contractor is paid for acceptable performance and not paid for unacceptable performance. The Contracting Officer’s Representative must assess the contractor’s performance to ensure that the supply or service delivered conforms to contract requirements. In addition, he or she must continually monitor the contractor’s performance, both formally and informally, throughout the contract. The key assessment factors include: (1) cost control; (2) timeliness (scheduled/delivery); (3) quality; (4) business relations; (5) management of key personnel; (6) user satisfaction; and (7) compliance. The Quality Assurance Surveillance Plan details how and when the Government will survey, observe, test, sample, evaluate, and document contractor performance.

DoD “Contractor Performance Assessment Reporting System Policy Guide,” dated June 2011. This policy states that the Contractor Performance Assessment Reporting System assesses a contractor’s performance, both positive and negative, and provides a record on a given contract during a specified period of time. The requiring activity must complete a performance assessment report in the Contractor Performance Assessment Reporting System in accordance with the reporting thresholds. Based on the reporting thresholds, it was determined that the requiring activity must complete a report in the Contractor Performance Assessment Reporting System for each contract order in excess of $1,000,000 for services and $150,000 for fuels when contracts are used by multiple activities or agencies. The responsibility for completing quality reports in a timely manner rests with the assessing official, who may be a program manager, or the equivalent individual responsible for program, project, or task/job/delivery order execution.

Department of the Navy Guidance

Secretary of the Navy Instruction 5200.35e, “Department of the Navy (DON) Managers’ Internal Control Program,” dated 8 November 2006. This instruction provides a revised managers’ internal control policy for all DON components. It is DON policy that commands establish managers’ internal control programs to evaluate and report on the effectiveness of internal controls. The programs should list assessable units throughout their organizations and allow for making corrections when necessary. DON organizations shall implement a system of internal controls to provide reasonable assurance that the following objectives are met: effectiveness and efficiency of operation; reliability of financial reporting; and compliance with applicable laws and regulations.
Naval Supply Systems Command (NAVSUP) Guidance

NAVSUP Instruction 4200.82F “Procurement Performance Management Assessment Program of the Navy Field Contracting System,” dated 27 January 2012. The instruction states that the primary objective of the Procurement Performance Management Assessment Program is to ensure activities receiving contracting authority from the Naval Supply Systems Command are executing this authority in an effective and efficient manner. The program is a flexible, performance-based, process-oriented program that includes self-assessment of an activity’s control of and continuous improvement in critical procurement processes, their performance-based metrics, and the results of employee and customer surveys.

NAVSUP Instruction 4200.85D, “Department of the Navy Simplified Acquisition Procedures,” dated 25 April 2005. This instruction states that purchases directly from a commercial source in the open market made by supply officers must be reported to the Naval Supply Systems Command annually. Two examples provided were orders against husbanding contracts and orders placed directly by the ship’s ordering officer against an existing contract. One example of the types of supplies and services that may be available under the Indefinite Delivery Type Contract section discussed husbanding service contracts. Contracts for husbanding services allowed the husbanding agent to provide (or subcontract for) port services, material or personnel transporting services, consumable supplies, and/or subsistence required by the ship upon entering or while in port.

NAVSUP Instruction 4200.81G, “NAVSUP Navy Field Contracting System Authority and Responsibility,” dated 27 January 2012. This instruction states that type commanders are responsible for establishing limits on, and monitoring use of the contracting authority granted to ships. In addition, the Procurement Performance Management Assessment Program offices shall provide coordination, guidance, and assistance to the type commanders, as requested, in carrying out their oversight responsibilities.

NAVSUP Instruction 4205.3D, “Contracting Officer’s Representative,” dated 5 May 2011. According to this instruction, the Contracting Officer’s Representative is a representative of the requiring activity and designated by the Procuring Contracting Officer to assist in the technical monitoring or administration of a contract. The Contracting Officer’s Representative is required to pay particular attention to the timely review of invoices to ensure that labor hours, labor mix, materials, travel, and other direct costs identified are consistent and reasonable for the effort completed during the period covered by the invoice. In addition, for all cost-reimbursement invoices Contracting Officer’s Representatives must: (1) validate and confirm prime contractor and subcontractor other direct costs, labor hours, and material costs; (2) review the subcontractor back-up documentation associated with each invoice to ensure its validity and reasonableness; and (3) verify receipt of all services claimed to have been provided...
on an invoice. In addition, Contracting Officer’s Representatives play a significant role in the Contractor Performance Assessment Reporting System process and may be the assessing official on the contract responsible for preparing a quality narrative to accompany the Contractor Performance Assessment Reporting rating. As the assessing official, the Contracting Officer’s Representative must make a dedicated effort to thoroughly describe the circumstances surrounding the rating.

**NAVSUP Letter 4200 0210/9041 09-06, “Monitoring Performance in Contracts for Services,” dated 26 November 2008.** This letter states that the Naval Supply Systems Command’s goal is to ensure that the Contracting Officer’s Representatives effectively monitor contractor performance and ensure performance is commensurate with payment throughout the life of the contract. In order for them to effectively conduct contract surveillance, the contracts they monitor must include a Quality Assurance Surveillance Plan, complete with clear and concise performance requirements and clearly established methods of surveillance to measure those requirements. Enclosure 1 of the Naval Supply Systems Command Letter is the DoD memorandum, “Monitoring Contract Performance in Contracts for Services,” dated 22 August 2008, which states that trained and ready Contracting Officer’s Representatives are critical because they ensure that:

1. contractors comply with all contract requirements; and
2. overall performance is commensurate with the level of payments made throughout the life of the contract.

Contracting Officer’s Representative activities should be tailored to the dollar value and complexity of the specific service contract. The Naval Supply Systems Command letter’s attachment, “Requiring Activity Responsibilities for Contract Surveillance of Service Contracts,” states that the activity responsible for technical requirements (the “requiring activity”) is responsible for prescribing contract quality requirements. The Contracting Officer’s Representative is a representative of the requiring activity, nominated by the requiring activity, and designated by the contracting officer, to assist in the technical monitoring or administration of the contract. They must be designated and trained prior to contract award.

**NAVSUP Husbanding and Ordering Officer Guide, dated 15 January 2011.** Per the guide, the standardized husbanding model adopted was the Logistics Support Services Repository, a process for capturing and tracking historical port cost data. The model provides for capture of standardized quality assurance surveillance plan information. The U.S. Navy uses the information in the Logistics Support Services Repository as a requirements validation tool, and a tool to identify significant cost drivers within various ports, countries, and regions. Task orders for husbanding services are normally provided by the ship’s supply officer with contracting authority delegated through the type commanders. In unique instances, the contracting officer may issue task orders on behalf of the ships for husbanding services. In all cases, the husbanding service provider \(^{30}\) is

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\(^{30}\) A husbanding service provider provides or coordinates for the delivery or performance of supplies or services. The provider charges a contractually agreed upon price for supplies/services originally priced in the contract and facilitates the ship in finding potential sources for supplies/services not priced in the contract.
responsible for reporting all expenditures under the contract through the Logistics Support Services Repository and Online Pricing Application.\textsuperscript{31} If applicable, the ordering officer must attempt to resolve disputed charges before departure (disputed charges include incorrect quantities delivered, incorrect contract pricing, and no substantiating documentation for port tariffs, etc...). All bills are to be paid before departure except disputed items. Discrepancies should be reported to the contracting officer immediately and noted on the Port Visit Cost Report.

\textsuperscript{31} The On-line Pricing Application is a contractor owned and operated system required to assist the Government in the estimating, tracking, forecasting, and reporting of maritime husbanding support non-priced services. The On-Line Pricing Application assists the Ordering Officer or Contracting Officer with requests for non-priced supplies and services and implements the process for review and approval of non-priced item purchases.
Exhibit D:

Activities Visited and/or Contacted

Commander, U.S. Pacific Fleet, Honolulu, HI

Commander, Naval Air Forces Pacific, San Diego, CA

Commander, Naval Surface Forces Pacific, San Diego, CA

Commander Seventh Fleet, deployed to Yokosuka, Japan

Commander, Task Force (CTF), 70, 73,* 74,* 76, Japan and Singapore

Naval Supply Systems Command Headquarters, Mechanicsburg, PA

Naval Supply Systems Command Global Logistics Center, San Diego, CA

Naval Supply Systems Command Fleet Logistics Center, Yokosuka, Japan*

Naval Supply Systems Command Fleet Logistics Center Yokosuka Detachment, Singapore*

Naval Supply Systems Command Fleet Logistics Center Yokosuka Detachment, Hong Kong*

Naval Criminal Investigative Service Yokosuka, Japan

Naval Criminal Investigative Service Singapore

*Activities visited
Appendix 1:
Management Response from Commander, U. S. Pacific Fleet

From: Commander, U. S. Pacific Fleet (N4)
To: Naval Audit Service

Subj: INTERNAL CONTROLS OVER THE EXECUTION OF HUSBANDING
       CONTRACTS - 7TH FLEET AREA OF RESPONSIBILITY (DRAFT AUDIT
       REPORT 2012-129)

Ref: (a) NAVAUDSVIC ltr 7510 Ser 2012-129 of 11 Apr 13
     (b) SECNVINST 5710.7F

Encl: (1) COMPACFLT Management Response to NAVAUDSVIC Draft Audit
      Report 2012-129

1. In response to reference (a) and in accordance with referenced
   (b), enclosure (1) provides our management response.

2. Point of contact is [REDACTED] (CPP N40) e& OCM [REDACTED]
   or email [REDACTED]

       Deputy Chief of Staff
       for Logistics, Fleet Supply
       and Ordnance

Copy to:
COMPACFLT (N01, N00IG)
APPENDIX 1: MANAGEMENT RESPONSE FROM COMMANDER, U.S. PACIFIC FLEET COMMAND

CONACFLTF Management Response to Draft NAVAUDSVSC Report 2012-129
Internal Controls Over the Execution of Hubbing Contracts - 7th Fleet Area of Responsibility

Recommendation 1: Designate a Contracting Officer’s Representative to support hubbing contracts and monitor hubbing service providers’ performance in accordance with the contracts.

CONACFLTF Response: Concur. CONACFLTF has directed CONSEVENTHFLT to nominate a staff member as a Contracting Officer’s Representative (COR) to support hubbing contracts and monitor hubbing service providers’ (HSP) performance in accordance with the contracts. CONACFLTF supports hiring a permanent US employee under CONSEVENTHFLT to be located at Fleet Logistics Center Yokosuka to perform the COR functions and will execute as resources and authorities become available. Target completion date for CONSEVENTHFLT to nominate a COR and have the COR designated by the Contracting Officer is 30 Jun 2013.

Recommendation 2: Establish guidance to ensure that volume-based services are measured using an objective measurement (e.g., flow meter for liquids and standard barge/bins for trash) and that the method used is effective and verifiable.

CONACFLTF Response: Partially concur. Collection, Holding, and Transfer (CHT) flow meters have been successfully installed on all Class IV ships and 2 of 6 Class IV ships in the Pacific Fleet. Flow meters are on hand or on order for the remaining 4 Class IV ships. The target completion date for installation of flow meters on the remaining Class IV ships is being determined by the Commander, Naval Surface Forces based on ship maintenance schedules. Completion of this effort is dependent on funding to purchase flow meters for Class III and below ships and the maintenance schedules of those ships. For the final version of the audit, CONACFLTF will consider the flow issue closed.

There is no current satisfactory and accurate method of measuring the trash offload from a ship as barges and bins made available by the HSP vary in size. To address this recommendation CONACFLTF has engaged Fleet Logistics Center Yokosuka to change the method by which trash offload services are contracted with the HSP. Specifically, rather than paying the HSP by volume of trash removed, the HSP would be paid a daily rate. This recommended change is being explored as the next regional HSP contracts are developed. The first of these contracts is expected to be awarded in the latter part of 2014.

Recommendation 4: Develop procedures that ensure that every Supply Officer attains access to the Logistics Support Services Repository and uses the resources available. In addition, establish procedures for Supply Officers to submit port visit documentation to the Logistics Support Services Repository which would limit dependence on the hubbing service providers.

Enclosure (1)
COMPACFLT Response: Partially concur. COMPACFLT will direct Type Commanders to ensure that all ship's Supply Officers obtain access to the Logistics Support Services Repository (LogSSR) and use the resources available. Target completion date for COMPACFLT's direction to the Type Commanders to ensure all ship's Supply Officers obtain access to LogSSR is 10 June 2013.

COMPACFLT non-concurs with the second part of the recommendation. Under the current contract, the HSP is required to submit supporting documentation to LogSSR. The Contracting Officer's Representative (COR) will, as part of the COR's assigned duties, check the HSP's documentation in LogSSR for accuracy and completeness.

Recommendation 5: Conduct Contractor Performance Assessment Reporting reviews for task orders in accordance with the Department of Defense Contractor Performance Assessment Reporting System guidance.

COMPACFLT response: Concur. The COMSEVENTHFLT COR will provide this function. The designated COR will be responsible for conducting Contractor Performance Assessment Reporting reviews in accordance with the DoD CPAR policy. Completion of the Contractor Performance Assessment Reporting System reviews will be conducted annually in accordance with DoD CPAR Policy Guide of June 2011. Target completion date for the annual CPAR reviews for 2013 is 31 December 2013.

Recommendation 6: Improve internal controls over the supply and service approval and invoice payment and reconciliation processes to ensure that payments made at the time of ship departure are accurate and supportable, or adjusted as necessary.

COMPACFLT Response: Partially concur. Sufficient internal controls exist in various directives, references and guidance documents to ensure ship's Supply Officers only pay invoices that are accurate and supportable. The weakness as identified in the audit represents failure to adhere to prescribed procedures. COMPACFLT, in conjunction with Fleet Logistics Center Yokosuka and the Type Commanders, has developed a 'Supply Officer Port Visit Checklist' to ensure the Supply Officer adheres to established guidance. This checklist includes specific actions the Supply Officer should take when reconciling invoices to ensure that payments are accurate and supportable. Additionally, COMPACFLT will reiterate to each Supply Officer via naval message the appropriate references to follow to ensure only final invoices are paid as well as the procedures to follow for any disputed or non-final invoices. Target completion date for the implementation of the Supply Officer Port Visit Checklist and the issuance of the naval message is 31 July 2013.
From: Commander, Naval Supply Systems Command
To: Assistant Auditor General for Installations and Environment Audits

Subj: NAVAL AUDIT SERVICE DRAFT AUDIT REPORT ON INTERNAL CONTROLS OVER THE EXECUTION OF HUSBANDING CONTRACTS - 7TH FLEET AREA OF RESPONSIBILITY (2012-129)

Ref: (a) Naval Audit Service Draft Audit Report (2012-129)

Encl: (1) NAVSUP comments on subject Draft Audit Report

1. Enclosure (1) is provided in response to reference (a).

2. For any questions, please contact our Chief of Staff, [redacted] at [redacted] DSN or e-mail at

[redacted]

M. F. HEINRICH

Copy to: NAVSUPGEN
APPENDIX 2: MANAGEMENT RESPONSE FROM COMMANDER, NAVAL SUPPLY SYSTEMS COMMAND

NAVAL SUPPLY SYSTEMS COMMAND COMMENTS ON
NAVAL AUDIT SERVICE DRAFT AUDIT REPORT
2012-129 of 11 April 2013 ON
INTERNAL CONTROLS OVER THE EXECUTION OF HUSBANDING CONTRACTS -
7TH FLEET AREA OF RESPONSIBILITY

Audit Finding 1 (synopsis): Husbanding Performance Management

The execution of husbanding contracts within the 7th Fleet area of responsibility was not sufficient to maximize the value and cost efficiency of port services provided to the Department of the Navy (DON). The primary purpose of husbanding contracts is to provide supplies and services in support of U.S. Navy vessels making port calls in non-Navy ports, with additional support for Military Sealift Command and U.S. Coast Guard ships. Support is provided by husbanding service providers under contract. Navy Audit found:

(1) husbanding contracts were executed without an appointed Contracting Officer’s Representative; (2) contract requirements were not met in regard to supporting documentation; (3) some personnel lacked access to Logistics Support Services Repository; (4) some non-contract line items lacked appropriate approval; (5) a Contractor Performance Assessment Reporting review was not conducted for husbanding task orders issued by the Fleet; (6) estimated (instead of actual) charges on invoices were paid during port visits; and (7) ship personnel were not able to accurately validate offload measurements of volume-based services (i.e., collection, holding and transfer, and trash) during port visits.

According to Office of Management and Budget Circular A-123, management is responsible for developing and maintaining effective internal controls. In addition, the Department of Defense (DoD) Contracting Officer’s Representative Handbook states that the requiring activity, coordinating with the contracting office, is responsible for developing contract quality assurance, surveillance, and performance assessment plans.

These conditions occurred because the implementation of husbanding contract task orders lacked effective internal controls and management oversight. As a result, ships may be overpaying for services received. Additionally, there is not an

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APPENDIX 2: MANAGEMENT RESPONSE FROM COMMANDER, NAVAL SUPPLY SYSTEMS COMMAND

accurate assessment of contractor performance, thus resulting in: (1) the ineffective measurement of costs and quality of service; and (2) the possibility of the Government not receiving the best services for the war-fighter.

Recommendation 3: We recommend that Commander, Naval Supply Systems Command improve internal controls to review and verify that submitted port visit invoices support documentation are entered into the Logistics Support Services Repository.

NAVSUP comment:

Concur. Incumbent Housing Service Providers (HSPs) performing on the current regional housing contracts have been notified via email on 22 March 2013, with additional clarification sent on 16 April 2013: effective 1 May 2013, all HSP providers shall submit all supporting documentation to the Logistics Support Services Repository (LogSSR) email account (navsup hq logssr@navy.mil), to substantiate or support all submitted/entered invoices. The documentation should include at a minimum: Online Pricing Application (OPA) quotes, Port Tariff (PT) prices, CHT offload quantities, DD1149s, DD1155s, etc. In accordance with the current provisions of the contract, these documents shall be submitted to LogSSR within seven days after the completion of the port visit.

There are three opportunities to ensure that LogSSR entries and uploaded documents are reviewed and verified: (1) by the LogSSR Administrator who verifies that entries are made timely and accurate, (2) by the Contracting Officer or Ordering Officer who verifies OPA for accuracy and entries, and, (3) by the Contracting Officer’s Representative (COR) who verifies that the invoices are for actual services rendered.

To ensure that CORs have been nominated and appointed on HSP contracts, NAVSUP has taken the following measures so that the follow-on HSP contracts are COR compliant and work with our customers to make the current contract compliant. NAVSUP Memorandum dated 4 May 2012 was issued to all customer commands that are utilizing the NAVSUP HSP contracts for placing orders. In summation, this memo reiterates policy on designation, assignment and responsibilities of CORs and the requirement for activities to nominate a COR for husbanding contracts under which they obtain services.

Enclosure (1)
Additionally, NAVSUP now requires all contracts for Husbanding valued at $150,000 and above to be submitted per NAVSUPINST 4200.83H CH-1 “NAVAL SUPPLY SYSTEMS COMMAND CONTRACTING AND BUSINESS CLEARANCE PROCEDURES AND APPROVALS.” As part of the NAVSUP review process, contracts will be required to have an appointed COR prior to NAVSUP’s approval to make award.

Estimated target date for implementation will commence within 60 days upon receipt of a COR nomination from Commander, Pacific Fleet (COMPACFLT). NAVSUP will ensure that the COR appointment letter includes sufficient direction to include those functional duties necessary by the COR for reviewing and validation that the submitted port visit invoices and support documentation by the HSP vendor are properly entered into the Logistics Support Services Repository (LogSSR). COMPACFLT estimated date to provide COR(s) is 30 June 2013. NAVSUP estimated completion date is 28 August 2013.

Recommendation 4: We recommend that Commander, U.S. Pacific Fleet in conjunction with Commander, Naval Supply Systems Command develop procedures to ensure that every supply officer attains access to the Logistics Support Services Repository and uses the resources available. In addition, establish procedures for supply officers (or their staff) to submit port visit documentation to the Logistics Support Services Repository which would limit dependence on husbanding service providers.

NAVSUP comment:

Partially concur. NAVSUP concurs with the Naval Audit Service that supply officers (SUPFOs) should have access to the LogSSR database to gain access to historical data, contracts, priced schedules, port tariff costs and training. Access is readily available to all SUPFOs via their issued CAC card and an internet connection. However, there is no formal policy or instruction from the ships’ operational chain that directs them to obtain access into LogSSR. NAVSUP recommends that United States Fleet Forces Command/COMPACFLT via the Type Commanders (TYCOMs), mandate policy requiring SUPFOs to obtain access to LogSSR. NOTE: LogSSR is an internet based application; therefore, access requires sufficient bandwidth to connect to the internet which is limited when ships are underway/not at the home port.

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NAVSUP does not concur with second sentence, "In addition, establish procedures for supply officers (or their staff) to submit port visit documentation to the Logistics Support Services Repository which would limit dependence on husbanding service providers." In accordance with the contract, the HSP is responsible for the submission of port visit information to LogSSR, and is required to submit supporting documentation to the LogSSR email account, not the ship’s SUPPO.

Target date to implement recommendation was completed; "Granting LogSSR access to SUPPOs" is an ongoing, as-required process, as much LogSSR access is already available to any U.S. Government employees via their USG issued CAC card. USG employees need only to follow the directions provided on the LogSSR Access application from the LogSSR access page at https://my.navsup.navy.mil/apps/ops$logssr.login.

Recommendation 5: We recommend that Commander, U.S. Pacific Fleet in conjunction with Commander, Naval Supply Systems Command conduct Contractor Performance Assessment Reporting (CPAR) reviews for task orders in accordance with the Department of Defense Contractor Performance Assessment Reporting System guidance.

NAVSUP comment:

Concur. Bottom Line Up Front: Per the CPARS Policy Guide, "Paragraph 4.1. New Contracts: An interim CPAR is required for new contracts meeting the established thresholds" (>$1.0M for Services) that have a period of performance greater than 365 calendar days. The first interim CPAR must reflect evaluation of at least the first 180 calendar days of performance under the contract, and may include up to the first 365 calendar days of performance. For contracts with a period of performance of less than 365 calendar days, see "Final Reports" below.

"Paragraph 4.2. Final Reports: A final CPAR will be completed upon contract completion or delivery of the final major end item on contract. Final Reports are to be prepared on all contracts meeting the established thresholds" (>$1.0M for Services) "with a period of performance of less than 365 calendar days. The final CPAR does not include cumulative information but is limited to the period of contractor performance occurring after the

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preceding CPAR. The CPAR Focal Point has the authority to approve extensions when special circumstances arise”.

“Paragraph 2.1, CPARS for Indefinite-Delivery Contracts, Basic Ordering Agreements (BOAs) and Blanket Purchase Agreements (BPAs): The requiring activity must complete a CPAR in accordance with reporting thresholds” (> $1.0M for Services). “For indefinite-delivery contracts and BPAs (i.e., IUTC), the office issuing the contract or agreement will determine whether CPARs will be completed: (1) On each order meeting the FAR threshold and combining all other orders into one CPAR; (2) On each order, or (3) By combining all orders into one CPAR, regardless of their dollar value.”

“Paragraph 1.3, Responsibility for Completing CPARs: Responsibility for completing quality CPARs in a timely manner rests with the requiring activity’s “Assessing Official (AO), who may be a Program Manager (PM), or the equivalent individual responsible for program, project, or task/job/delivery order execution. It may also mean the Performance Evaluator, Quality Assurance Evaluator, Requirements Indicator, or the Contracting Officer’s Representative (COR).”

NAVSUP has chosen to implement the model (3) from above CPARS Policy Guide, Paragraph 2.1 above. By electing to do one CPAR annually, NAVSUP is in compliance with the DoD CPARS Policy Guide.

Furthermore, NAVSUP also agrees with Naval Audit Service recommendation for COMPACPLT to nominate CORs for Contracting Officer Representative appointments to Husbanding Contracts in order to ensure that CORs are accomplishing reviews at the task order in accordance with the DoD CPAR Policy, which will be used by the NAVSUP Contracting Officer to substantiate the annual CPAR.

However, due to the lack of COR nominations, NAVSUP husbanding contracts do not have CORs from the requiring activities appointed at this time. During the interim, NAVSUP appointed Contracting Officers will be responsible to complete CPARS in accordance with policy.

Target date for COR review of task orders evaluations to be utilized with assessing/supporting the yearly CPAR reviews will

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commence within 60 days upon receipt of a COR nomination from COMPACFLT, with the inclusion of the information derived from the task order reviews to be included on the next annual CPAR. NAVSUP will ensure that the COR appointment letter includes sufficient direction to include those functional duties necessary for a COR to provide the input necessary by task order so as to substantiate the yearly CPARS review. COMPACFLT estimated date to provide COR(s) is 30 June 2013. NAVSUP estimated completion date is 28 August 2013.

**Recommendation 6:** We recommend that Commander, U.S. Pacific Fleet in conjunction with Commander, Naval Supply Systems Command improve internal controls over the supply and service approval and invoice payment and reconciliation processes to ensure that payments made at the time of ship departure are accurate and supportable, or adjusted as necessary.

**NAVSUP comment:**

Concur. NAVSUP HSP contract language provides sufficient guidance. The weakness identified represents a failure to adhere to prescribed procedures.

Invoice reconciliation is performed by the ship’s SUPPO with the HSP prior to the ship’s departure. The SUPPO verifies the completeness and accuracy of the invoices and certifies them for payment. Any discrepancy or disagreement on the invoices should be challenged and disputed. The HSP and the SUPPO may mutually agree to settle a dispute before the ship departs. However, unresolved invoices/disputes, which are not paid before or after the ship departs, should be forwarded first, to the appropriate COR for resolution. If the COR is unsuccessful with ensuring that HSP has adhered to the performance work statement, including proper invoice submission, the discrepancy will be referred to the Contracting Officer for final disposition.

Additionally, the ship is the receiving official for all supplies/services delivered or provided by the HSP, hence, it is incumbent upon the ship’s SUPPO to keep an accurate record of services, quantities, times, etc., to be able to reconcile and settle the invoices. The appointed COR can assist in the reconciliation; however, it is important to note that the CORs are usually ‘not on the ground’ with the HSP and are normally not in a position to reconcile invoices at the time of the

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ship's departure. Thus, invoices in dispute, per the contract should be forwarded to the COR for resolution. Again, if a COR is unsuccessful in resolving a disputed invoice with the HSP, the discrepancy will be referred to the Contracting Officer for final disposition. NAVSUP will work with COMPACFLT to ensure prescribed guidance is widely disseminated to ordering officers authorized to place task orders against the HSP contracts. In addition to the methods used by COMPACFLT, NAVSUP will reiterate prescribed guidance for invoice approval, payment and reconciliation on LogSSR.

Estimated target date for implementation will commence within 60 days upon receipt of a COR nomination from COMPACFLT. NAVSUP will ensure that the COR appointment letter includes sufficient direction to include those functional duties as necessary for a COR to review invoices, payments disbursed, and reconciliation of any disputed invoices and forward those invoice that are unable to be resolved per the contract, to the Contracting Officer for final adjudication. COMPACFLT estimated date to provide COR(s) is 10 June 2013. NAVSUP estimated completion date is 28 August 2013.

Audit Finding 2 (synopsis): Husbanding Contracts Internal Controls Follow-up

Naval Audit Service reviewed recommendations from Naval Audit Service Report N2010-0044 (Acquisition Checks and Balances at Selected Navy and Marine Corps Activities in the Western Pacific) and found that opportunities still exist to improve NAVSUP’s internal controls and oversight. The internal review procedures, invoice reconciliation process, and management control program still needs strengthening to fully comply with Federal regulations and implement husbanding contracts in the most effective manner. These conditions occurred because many husbanding task orders were not included in any internal review, and implemented corrective actions were not functioning to meet the intent of the original recommendations. As a result, husbanding contracts/actions were vulnerable to misuse, fraud, waste, and abuse.

Recommendation 7: We recommend that Commander, Naval Supply Systems Command establish internal controls to provide sufficient oversight of all task orders issued against husbanding contracts (i.e., include task orders issued by the

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ship in the Procurement Performance Management Assessment Program/Quality Assurance Self Assessment review process).

**NAVSUP comment:**

**Concur.** NAVSUP concurs and instituted a requirement for the NAVSUP PPMA Program to review 100 percent of all task orders issued by FLC as a Special Interest item during the normal PPMA review process. However, task orders placed by afloat units are the responsibility of the TYCOMs per NAVSUPINST 4200.81 (series) (NAVAL SUPPLY SYSTEMS COMMAND NAVY FIELD CONTRACTING SYSTEM AUTHORITY AND RESPONSIBILITY, Enclosure (4)).

As such, it is incumbent upon the TYCOMs to already have in place established management controls for inspections, assessments, and reports designed to ensure that policy and regulations are followed. As a result of Navy Marine Corps Acquisition Regulation Supplement (NMCARS) Change 08-13, NAVSUP as the HCA is responsible for PPMAF operations performed within the HCA. Per NAVSUPINST 4200.81 (series) TYCOMs are still responsible for carrying out the oversight of afloat units delegated NAVSUP contracting per the procedures in NAVSUPINST 4200.82 (Series), PROCUREMENT PERFORMANCE ASSESSMENT PROGRAM (PPAMP) OF THE NAVY FIELD CONTRACTING SYSTEM.

As a result of this most recent change to the NMCARS, the NAVSUPINST 4200.82 (series) will be updated to ensure that the TYCOM LMA reviews are also inclusive of those actions by afloat units delegated Ordering Officer and Simplified Acquisition Acquisitions and are reviewed per NAVSUPINST 4200.82 (series). The estimated completion date is 31 January 2014.

**Recommendation 8:** We recommend that Commander, Naval Supply Systems Command establish procedures to ensure contracting personnel are actively involved in the cost reconciliation process of all husbanding contracts.

**NAVSUP comment:**

**Concur.** All NAVSUP Husbanding contracts provide guidance for invoicing and payment procedures for HSP vendors and those activities authorized to place task orders against the HSP contract. The HSP contract language provides sufficient guidance. The weaknesses identified represent a failure of
those activities authorized to place task orders, to follow prescribed procedures. For reconciliation of husbanding task orders, the initial burden of reconciliation primarily falls upon the activity placing the order. Receipt of goods/services, invoice certification for payment under husbanding contracts, and reconciliation of invoices, are the receiving customers’ responsibility. Again, customers having appointed CORs readily available that can intervene early with invoice reconciliation process should there be a dispute. NAVSUP concurs that the Contracting Officer can assist with any resolution and reconciliation of any unsettled challenged and disputed costs/invoices. Ultimately, the onus is on the ship to assist the COR by substantiating any disputed costs/invoices at the onset by not accepting or making payments for any services/supplies that were not provided.

Once again, if a COR is unsuccessful in resolving a disputed invoice with the HSP, the discrepancy may be referred to the Contracting Officer for final disposition.

NAVSUP, in coordination with those Echelon II Commands whose subordinate commands are authorized to place orders against NAVSUP HSP contracts, shall be made aware of the process to reconcile disputed invoices.

Estimated target date for implementation will commence within 60 days upon receipt of a COR nomination from COMPACFLT. NAVSUP will ensure that the COR appointment letter includes sufficient direction to include those functional duties as necessary for a COR to review invoices, payments disbursed, and reconciliation of any disputed invoices and forward those invoice that are unable to be resolved per the contract, to the Contracting Officer for final adjudication. COMPACFLT estimated date to provide COR(s) is 30 June 2013. NAVSUP estimated completion date is 28 August 2013.

Recommendation 9: We recommend that Commander, Naval Supply Systems Command improve internal controls to ensure that liquid offload measurements (i.e., collection, holding, and transfer) are accurately calculated and that all husbanding service provider invoices include a written statement that describes the method used to determine the amount offloaded from the ship.

Enclosure (1)
Concur. The TYCOMS have committed to equipping the ships with flow meters to measure the volume of CHT offloaded. Furthermore, the HSP is now required to submit supporting documentation in LogSRR to substantiate volume of CHT offloaded and disposed, including a statement in the invoice/document describing the method of measurement used to measure the volume of CHT. Additionally, NAVSUP Publication 740 Husbanding (draft) guide provides guidance to Fleet Logistics Center HSP contracting offices that HSP contracts are to include language in husbanding contracts requiring the HSP to accurately measure CHT removed from the ship using a properly certified calibrated flow metering device as well as requiring the ship’s duty engineer to verify, in writing, the amount of discharged CHT while reserving the Government’s right to use its own metering device to verify measurement of sewage discharge. The HSP shall include a written statement with the invoice package describing the method used to determine the liquid quantities off-loaded from the ship. If, in any event, there is a disparity between the governments measured amount offloaded and the HSP’s measured amount, the government amount will be invoiced. Any amounts and costs associated with those amounts that are disputed by HSP must be presented to the COR by the HSP for resolution. In addition, the HSP must submit all necessary documentation to the COR to support the disputed amount offloaded. Again, if a COR is unsuccessful in resolving a disputed invoice with the HSP, the discrepancy may be referred to the Contracting Officer for final disposition.

As previously stated above, NAVSUP now requires all contracts for Husbanding valued at $150,000 and above to be submitted to NAVSUP, per NAVSUPINST 4200.83H CH-1, NAVAL SUPPLY SYSTEMS COMMAND CONTRACTING AND BUSINESS CLEARANCE PROCEDURES AND APPROVALS. As part of the NAVSUP review process, contracts prior to solicitation will be reviewed to ensure adequate language is included to substantiate that services provided for offload measurements (i.e., collection, holding, and transfer) are accurately calculated and that all husbanding service provider invoices include a written statement that describes the method used to determine the amount offloaded from the ship. Target date for completion, including additional information as required for measuring of offloads/on-loads to be included in NAVSUP P740, is 31 January 2014.

Enclosure (1)
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