Navy Husbonding and Port Services Contracts

This report contains information exempt from release under the Freedom of Information Act. Exemptions (b)(4), (b)(5), and (b)(6) apply.
<table>
<thead>
<tr>
<th>Obtaining Additional Copies</th>
<th>Providing Suggestions for Future Audits</th>
</tr>
</thead>
<tbody>
<tr>
<td>To obtain additional copies of this report, please use the following contact information:</td>
<td>To suggest ideas for or to request future audits, please use the following contact information:</td>
</tr>
<tr>
<td><strong>Phone:</strong> (202) 433-5757</td>
<td><strong>Phone:</strong> (202) 433-5840 (DSN 288)</td>
</tr>
<tr>
<td><strong>Fax:</strong> (202) 433-5921</td>
<td><strong>Fax:</strong> (202) 433-5921</td>
</tr>
<tr>
<td><strong>E-mail:</strong> <a href="mailto:NAVAUDSVC.FOIA@navy.mil">NAVAUDSVC.FOIA@navy.mil</a></td>
<td><strong>E-mail:</strong> <a href="mailto:NAVAUDSVC.AuditPlan@navy.mil">NAVAUDSVC.AuditPlan@navy.mil</a></td>
</tr>
<tr>
<td><strong>Mail:</strong> Naval Audit Service, Attn: FOIA 1006 Beatty Place SE Washington Navy Yard DC 20374-5005</td>
<td><strong>Mail:</strong> Naval Audit Service, Attn: Audit Requests 1006 Beatty Place SE Washington Navy Yard DC 20374-5005</td>
</tr>
</tbody>
</table>
MEMORANDUM FOR DISTRIBUTION

Subj: NAVY HUSBANDING AND PORT SERVICES CONTRACTS (AUDIT REPORT N2014-0048)

Ref: (a) NAVAUDSVC memo 7510, dated 19 Dec 13
     (b) SECNAV Instruction 7510.7F, “Department of the Navy Internal Audit”

1. This report provides results of the subject audit announced in reference (a). Section A of this report provides our results 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.

<table>
<thead>
<tr>
<th>Command</th>
<th>Recommendation No.</th>
<th>Status</th>
</tr>
</thead>
<tbody>
<tr>
<td>Secretary of the Navy</td>
<td>1, 2</td>
<td>Open</td>
</tr>
<tr>
<td>Assistant Secretary of the Navy for Financial Management and Comptroller</td>
<td>3-4</td>
<td>Open</td>
</tr>
<tr>
<td>Chief of Naval Operations</td>
<td>1-4</td>
<td>Open</td>
</tr>
<tr>
<td>Commander, U.S. Fleet Forces Command (N01G)/Type Commanders (Recs. 5-6 only)/Commander, Naval Surface Force U.S. Atlantic Fleet (Rec. 18 only)</td>
<td>18, 5-6</td>
<td>Open, Closed</td>
</tr>
<tr>
<td>Commander, Naval Supply Systems Command</td>
<td>10-11, 14-16, 18, 12-13, 17, 19</td>
<td>Open, Closed</td>
</tr>
<tr>
<td>Commander, U.S. Naval Forces Europe – U.S. Naval Forces Africa/U.S. Sixth Fleet</td>
<td>9-10, 7-8</td>
<td>Open, Closed</td>
</tr>
<tr>
<td>Commander, U.S. Naval Forces Central Command/U.S. Fifth Fleet</td>
<td>9-10, 7-8</td>
<td>Open, Closed</td>
</tr>
</tbody>
</table>

2. Actions taken by the commands meet the intent of Recommendations 5-8, 12-13, 17 and 19, and the recommendations are closed. Actions planned by the commands meet the intent of Recommendations 1-4, 9-11, 14-16, and 18. These recommendations are considered open pending completion of the planned corrective actions, and are subject to
monitoring in accordance with reference (b). Management should provide a written status report on the recommendations within 30 days after target completion dates. Please provide all correspondence to the Assistant Auditor General for Research, Development and Acquisition Audits, Arthur Scott, XXXXXXXXXX, with a copy to the Director, Policy and Oversight, XXXXXXXXXXXXX. 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. In order to protect privacy and other sensitive information included in this report, we request that you do not release this report outside the Department of the Navy, post on non-Naval Audit Service Web sites, or in Navy Taskers without the prior approval of the Auditor General of the Navy.

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

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

Distribution:
Secretary of the Navy
Assistant Secretary of the Navy for Financial Management and Comptroller
Chief of Naval Operations
Commander, U.S. Fleet Forces Command (N01IG)/Type Commanders
Commander, Naval Supply Systems Command
Commander, U.S. Naval Forces Europe – U.S. Naval Forces Africa/U.S. Sixth Fleet
Commander, U.S. Naval Forces Central Command/U.S. Fifth Fleet

Copy to: [next page]
Subj: NAVY HUSBANDING AND PORT SERVICES CONTRACTS (AUDIT REPORT N2014-0048)

Copy to:
UNSECNAV
DCMO
OGC
ASSTSECONNAV FMC (FMO)
ASSTSECONNAV EIE
ASSTSECONNAV MRA
ASSTSECONNAV RDA
CNO (VCNO, N40, N41)
DASN A&P
CMC (DMCS, ACMC)
DON CIO
NCIS Code 00I
AIO
NAVINSGEN (NAVIG-14)
AFAA/DO
**Table of Contents**

**SECTION A: RESULTS OF AUDIT AND CORRECTIVE ACTIONS** .............................. 1
  - Reason for Audit............................................................................................................... 1
  - Synopsis............................................................................................................................ 2
  - Areas Requiring Immediate Management Attention...................................................... 3
  - Federal Managers’ Financial Integrity Act....................................................................... 5
  - Briefings with Management ............................................................................................. 6
  - Background....................................................................................................................... 6
  - Audit Results .................................................................................................................... 7
  - Recommendations and Corrective Actions .................................................................... 19

**SECTION B: STATUS OF RECOMMENDATIONS** ..................................................... 33

**EXHIBIT A: PERTINENT GUIDANCE** .............................................................................. 37

**EXHIBIT B: SCOPE AND METHODOLOGY** ................................................................ 39

**EXHIBIT C: BRIEFINGS WITH MANAGEMENT** ............................................................. 41

**EXHIBIT D: ACTIVITIES VISITED OR CONTACTED** ................................................... 42

**APPENDIX 1: MANAGEMENT RESPONSE FROM THE ASSISTANT SECRETARY**
**OF THE NAVY (RESEARCH, DEVELOPMENT, AND ACQUISITION)** .......................... 43

**APPENDIX 2: MANAGEMENT RESPONSE FROM COMMANDER, U.S. FLEET**
**FORCES COMMAND** ..................................................................................................... ERROR! BOOKMARK NOT DEFINED.

**APPENDIX 3: MANAGEMENT RESPONSE FROM COMMANDER, U.S. NAVAL**
**FORCES CENTRAL COMMAND** .................................................................................... 57

**APPENDIX 4: MANAGEMENT RESPONSE FROM COMMANDER, U.S. SIXTH**
**FLEET** ............................................................................................................................ 59
Section A:

Results of Audit and Corrective Actions

Reason for Audit

This audit was requested by the Secretary of the Navy in order to identify internal control weaknesses within the Navy’s husbanding and port services processes. The Secretary’s request was made in response to a recent high-profile case involving alleged fraudulent activities conducted by Glenn Defense Marine Asia contractors and Navy officials. Previous Naval Audit Service audit reports also identified material concerns with controls related to Navy husbanding and port services contracts. Further, administration of service contracts was included as a material weakness in the Fiscal Years 2012 and 2013 Department of the Navy (DON) Statements of Assurance.

The objective of this audit was to identify opportunities to improve internal controls regarding the awarding of task orders/contracts, surveillance roles and responsibilities, and invoice review and payment process supporting the delivery of goods and services for husbanding and port services contracts.

Our audit focused on the execution of husbanding and port services contracts from 1 October 2012 to 31 March 2014 within the U.S. Fifth and Sixth Fleets’ areas of responsibilities (AORs).

Subsequent to the audit team’s site visits and conclusion of field work, DON issued memorandums tasking accountable activities to implement recommendations identified in an Assistant Secretary of the Navy (Research, Development, and Acquisition) report, dated 11 March 2014. Corrective actions within these memorandums are aimed specifically at improving the husbanding services process and reduce the potential for fraud and payment errors. Our review of these corrective actions indicates that DON had addressed several findings identified within our report. While we do recognize their efforts to take action, we have not audited the sufficiency of the improvement initiative by DON, therefore we cannot attest to the effectiveness of the improvements.

---

Synopsis

We found that the Navy’s current model for acquiring husbanding and port services does not have sufficient internal controls in place to detect or deter fraud and abuse within all areas of the process, including funding and scheduling of port visits, language of contracts, awarding of task orders, surveillance roles and responsibilities, and the invoice review and payment process. Specifically, we found the following significant internal control weaknesses:

- Naval Supply Systems Command (NAVSUP) used a prohibited contracting method for acquiring incidentals (unpriced items) for husbanding and port services for contract N68171-12-D-0001.
- Navy internal controls were not sufficient to prevent Inchcape Shipping Services (ISS) from improperly charging a variable markup for non-contract line item numbers (CLINs), which was not allowable per N49400-05-D-A008 contract terms.
- Ship personnel accepted and paid for volumetric services not performed by ISS subcontractors.
- Two contracts (N68171-07-D-0007 and N68171-12-D-0001) contained weak contract language, which allowed supply officers (SUPPOs) an unlimited scope when ordering supplies and services.
- U.S. Fleet Forces Command (USFFC) and the U.S. Fifth and Sixth Fleets did not effectively monitor the execution of funds used for husbanding/port visit goods and services.
- U.S. Fifth and Sixth Fleets did not limit access to ship schedules to authorized individuals with a need to know, and assign and maintain accountability for their custody and use.
- Ships’ ordering, receiving, certifying, and payment functions for husbanding goods and services were not properly segregated.
- Ship SUPPOs were not properly appointed and did not fully understand their roles, responsibilities, and authorities as contracting/ordering officers; and they did not receive the necessary contracting training to execute their responsibilities.
- Ship personnel did not follow Federal Acquisition Regulation (FAR) and NAVSUP contracting guidance or contract requirements when ordering husbanding/port goods and services.
- Ship personnel did not properly verify quantities and amounts received on delivery tickets, maintain and track services provided, or have knowledge of quantities
ordered when performing receipt and acceptance of husbanding/port goods and services.

- Personnel responsible for reviewing and reconciling invoices and processing payments did not always follow the Department of Defense Financial Management Regulation (DoD FMR), fully understand their roles and responsibilities, or receive the necessary training to execute these duties.

- NAVSUP, USFFC, and U.S. Fifth and Sixth Fleets did not properly appoint Contracting Officer’s Representatives (CORs), conduct surveillance, or maintain a contract file in accordance with FAR and DoD contracting regulations.

As a result, the Navy does not have assurance that it has received the goods and services for which it paid for on husbanding contracts valued at $686 million within the U.S. Fifth and Sixth Fleets AORs, or that internal controls were sufficient to detect, deter, and prevent fraud and abuse.

### Areas Requiring Immediate Management Attention

During our audit, we found potential fraudulent, as well as improper, business practices that are not consistent with procurement laws and regulations governing the acquisition of goods and services. We are required to report deficiencies in internal control, instances of fraud, and noncompliance with provisions of laws, regulations, contracts, or abuse that have occurred or are likely to have occurred and are significant within the context of the audit objectives in accordance with Government Auditing Standards. We believe the findings below are significant to warrant immediate management attention and followup.

### Prohibited Contracting Method

We found that NAVSUP used a cost-plus-percentage-of-cost system for acquiring incidentals (unpriced items) for husbanding and port services within the U.S. Africa Command (AFRICOM) AOR regional contract N68171-12-D-0001. This practice is prohibited by 10 U.S. Code 2306 and FAR 16.102. According to the contract, Multinational Logistic Services (MLS) is entitled to XXXXXXXXXX markup for any unpriced items that the Navy may require. However, NAVSUP did not establish a finite ceiling to limit the acquisition of these types of goods and services. The Navy has already exceeded the estimated ceiling for unpriced items of this 3-year-old contract, which runs through November 2016. We found that the Navy incurred at least $87,000 in markup fees from 1 April 2012 to 31 March 2014. Due to how data is entered into the Logistics Support Services Repository (LogSSR), we were unable to capture the entire amount of markups paid. This arrangement is prohibited by U.S. law because it does not

---

2 LogSSR is a U.S. Navy Web site developed by NAVSUP to assist in managing the contracts and using port visit costs and information to better plan for future ship visits.
incentivize the contractor to control cost, as the more money the Navy is charged, the more profit the contractor will receive. We recommend NAVSUP restructure the contract and ensure that contract requirements meet the FAR.

Further, we found that Navy internal controls were not sufficient to prevent ISS from improperly charging a variable markup for non-CLINs, which was not allowable per the terms of the U.S. Fifth Fleet AOR’s husbanding contract. The NAVSUP Fleet Logistics Center Sigonella Detachment Naples Contracting Officer provided an ISS-submitted Standard Operating Procedures (SOP) document, dated 7 September 2011, which outlined non-CLIN procurement procedures for the U.S. Fifth Fleet regional contract. As of 16 March 14, the Navy has not taken action to establish internal controls to prevent ISS from charging these prohibited markups. To further compound this issue, no evidence exists that the Government has accepted the aforementioned terms of the SOP. However, even if the Government had accepted the SOP, this contracting method is prohibited by the FAR and U.S. Code. When we spoke with ISS representatives, they stated that the markup for non-CLINs was XXXXXXXXXX of the price, whichever was higher; however, these terms are not referenced within their SOP. Our review of invoices within LogSSR identified markup percentages ranging from XXXXXXXXXX percent. Below is a list of some of the examples we identified:

- Tugs hire charges for XXXXXXXXXX fee
- Hotel reservations made for XXXXXXXXXX fee
- Bearing purchased for XXXXXXXXXX fee
- Ice block delivery for XXXXXXXXXX fee
- Ice block delivery for XXXXXXXXXX fee

We recommend the Navy determine the amount of and recoup improper markups paid to ISS, and subsequently provide oversight to ensure the Navy does not pay additional fees in the future.

**Potential False Claims**

We found several instances of potential false claims for volumetric services during our Bahrain site visit (U.S. Fifth Fleet port). Specifically, we observed ship personnel signing receipts and accepting services for items not received. According to 18 U.S. Code 287, whoever makes or presents to any person or officer in the civil, military, or naval service of the United States, or to any department or agency thereof, any claim upon or against the United States, or any department or agency thereof, knowing such claim to be false, fictitious, or fraudulent, shall be imprisoned not more than 5 years and shall be subject to a fine. We observed that one 4,000-gallon truck pumped Collection,
Holding, and Transfer (CHT) (waste) from two 4,000-gallon standby trucks and was approximately ¾ full after pumping down both trucks. However, the subcontractor provided two receipts, each annotating that 4,000 gallons was pumped, and ship personnel signed for the pumping of 8,000 gallons. Therefore, the Government paid for over twice the amount actually pumped. Further, we observed that ship personnel signed for the receipt of a full truck of potable water while acknowledging to the audit team that they only actually received half of the amount claimed on the subcontractor-provided receipt. This activity could go undetected due to a weak internal control environment. As a result the Navy does not have assurance it is receiving the supplies and services for which it paid. We are making several recommendations to strengthen controls related to contract surveillance on ships.

Unlimited-Scope Contracts

We found that two of the five contracts (N68171-07-D-0007 and N68171-12-D-0001) reviewed contained weak contract language which allowed SUPPOs an unlimited scope when ordering supplies and services. Specifically, one contract contained a miscellaneous CLIN that was defined as “Miscellaneous Supplies and Services not priced in the contract” which did not provide any scope limitations. The second contract contained an “Incidental CLIN” with a very broad scope under which any supply or service could be ordered. According to the FAR, a contract for an indefinite quantity must include a statement of work, specifications, or other description, that reasonably describes the general scope, nature, complexity, and purpose of the supplies or services the Government will acquire under the contract. The FAR also states that indefinite-quantity contracts permit flexibility in both quantities and delivery scheduling. However, it does not state that flexibility is for the actual services or supplies required. Therefore, we recommend that NAVSUP eliminate miscellaneous CLINs in both contracts (N68171-07-D-0007 and N68171-12-D-0001) and clearly define the specific goods and services required within the scope of the contract.

See the Audit Results section for additional information on the above areas and other internal control weaknesses identified during the audit.

Federal Managers’ Financial Integrity Act

The Federal Managers’ Financial Integrity Act of 1982, as codified in Title 31, U.S. Code, requires each Federal agency head to annually certify the effectiveness of the agency’s internal and accounting system controls. Recommendations 3-19 address issues related to the internal controls over the husbanding and port service process. In our opinion, the weaknesses noted in this report may warrant reporting in the Auditor General’s annual Federal Managers’ Financial Integrity Act memorandum identifying management control weaknesses to the Secretary of the Navy.
SECTION A: RESULTS OF AUDIT AND CORRECTIVE ACTIONS

**Briefings with Management**

We briefed senior Navy leadership on preliminary results of the audit to keep them informed of our audit progress, facilitate discussion, and foster prompt corrective actions where appropriate. See Exhibit C for a listing of individuals briefed.

**Background**

U.S. Navy ships visit ports around the world in support of mission objectives. During these port visits, husbanding services and supplies such as tugboats, pilotage, barges, brows, trash and sewage removal, utilities, force protection, transportation, etc. are required. In order for these services to be readily available, NAVSUP Fleet Logistics Centers awarded contracts for specific geographical regions. NAVSUP currently has five regional contracts, valued at $686 million, covering husbanding services within the U.S. Fifth and Sixth Fleets AORs to encompass ports in Southwest Asia, Europe, and Africa.

<table>
<thead>
<tr>
<th>Contract</th>
<th>Value ($M)</th>
<th>Period of Performance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Southwest Asia</td>
<td>$289.7</td>
<td>1 August 2005 – 31 May 2014&lt;sup&gt;4&lt;/sup&gt;</td>
</tr>
<tr>
<td>Med-Wide</td>
<td>$223</td>
<td>1 April 2007– 30 September 2014&lt;sup&gt;5&lt;/sup&gt;</td>
</tr>
<tr>
<td>Black Sea</td>
<td>$16.3</td>
<td>1 August 2007 – 30 Sep 2014&lt;sup&gt;5&lt;/sup&gt;</td>
</tr>
<tr>
<td>Northern Europe</td>
<td>$146.1</td>
<td>1 July 2003– 30 Sep 2014&lt;sup&gt;5&lt;/sup&gt;</td>
</tr>
<tr>
<td>AFRICOM</td>
<td>$11.2</td>
<td>1 December 2011 – 30 November 2016&lt;sup&gt;5&lt;/sup&gt;</td>
</tr>
</tbody>
</table>

These contracts use a husbanding service provider (HSP) to provide, or coordinate, for the delivery of supplies or performance of services within the scope of the contract. The HSP is the prime contractor for these services and charges a contractually agreed-upon price for those supplies/services that were originally priced, and a “to be determined fair and reasonable” price for items that were originally unpriced, but within the scope of the contract.

The U.S. Fifth and Sixth Fleets rely on these contracts to obtain the necessary supplies or services when making a port visit. In order to arrange for these supplies or services, an ordering officer (generally the senior Supply Officer on the ship) is usually delegated contracting authority to solely place delivery/task orders for supplies and services against the already established HSP contracts. Given the complexity of the contracts and the cost reimbursable element for unpriced supplies and services, ordering officers must be

---

<sup>3</sup> NAVSUP-provided contract values as of 30 May 2014.
<sup>4</sup> NAVSUP-provided period of performance provided as of 23 February 2014.
<sup>5</sup> NAVSUP-provided period of performance provided as of 3 March 2014.
trained to carry out their responsibilities. Often, the duties of ordering officers entail responsibility and complexity similar to that of a contracting officer. Training of these ordering officers is the responsibility of USFFC through one of three Type Commanders (TYCOMs) depending on the class of ship. NAVSUP has granted the TYCOMs the authority to appoint contracting/ordering officers and as such, NAVSUP requires the TYCOMs to establish and monitor the use of this authority. Further, TYCOMs are tasked with the mission to man, train, and equip all ship personnel for operational readiness within the numbered Fleets (e.g., U.S. Fifth and Sixth Fleets, etc.). This includes not only various requirements for maintenance and logistics, but also the preparation of ship personnel for acquiring, receiving, and paying for husbanding supplies and services.

Audit Results

The Navy’s current model for obtaining husbanding services has significant weaknesses in a variety of critical areas, including the funding and scheduling of port visits, the language of contracts, contract surveillance, and the invoice review and payment process. This was due to significant internal control weaknesses throughout the process that allowed for noncompliance with Federal and DoD acquisition regulations. As a result, the Navy does not have assurance that it received the goods or services for which it paid, and is vulnerable to fraud, waste, and abuse.

Monitoring of Port Visit Expenditures

We found that USFFC, including the TYCOMs and U.S. Fifth and Sixth Fleets, did not effectively monitor the execution of funds used for husbanding/port visit goods and services. Specifically, USFFC (including the TYCOMs) relied on the SUPPO and Commanding Officer of the ships to effectively manage port visit funding, and U.S. Fifth and Sixth Fleets did not have a process in place to monitor port visit expenditures. Without proper internal control activities in place at USFFC, TYCOMs, and the U.S. Fifth and Sixth Fleets, the Navy does not have reasonable assurance that resources are committed and used only for valid port service transactions. Currently each TYCOM manages the release of funds for port visits differently.

- Commander, Submarine Force U.S. Atlantic Fleet reimburses funding to boats after port visit execution based on Port Visit Cost Reports.
- Commander, Naval Surface Force U.S. Atlantic Fleet automatically pays port visit costs through centrally funded accounts (with the exception of Patrol Craft Squadrons, which use Government Purchase Cards for payment).
Commander, Naval Air Force U.S. Atlantic Fleet conducts a cursory review of port visit cost estimates based solely on the ship operations program manager’s experience and historical costs before releasing funds.

However, USFFC and the TYCOMs were attempting to monitor the execution of funding without determining if all requirements ordered and received for port visits were valid and costs incurred were reasonable and in accordance with contract terms. This condition occurred because there is confusion among USFFC, the TYCOMs, and U.S. Fifth and Sixth Fleets over fiduciary oversight responsibilities when ships transition to the U.S. Fifth and Sixth Fleets.

TYCOMs are in the ship’s administrative chain of command. The TYCOMs are responsible for manning, training, and equipping the ships. Operational control is given to the U.S. Fifth and Sixth Fleets when ships enter their AOR. Regardless of a ship’s location, USFFC retains administrative chain of command responsibilities for funding ship operations. Therefore, even though USFFC does not schedule port visits or have authority to control the type or frequency of port visits, they are ultimately responsible for budgeting for, monitoring, and paying the costs of port visits. To compound this problematic arrangement, the U.S. Fifth and Sixth Fleets, which are responsible for ship movements (including the scheduling of port visits) act as the requiring activity for the goods and services received from the husbanding contracts. Additionally, the U.S. Fifth and Sixth Fleets’ scheduling process places cost as a low priority when developing and modifying ship schedules.

Further, NAVSUP has created LogSSR, which is a U.S. Navy Web site to assist in managing the contracts and using port visit costs and information to better plan for future ship visits. We found that NAVSUP LogSSR does not capture the necessary information to support the reconciliation of port visit documentation. Specifically, when comparing U.S. Fifth Fleet port visit data to LogSSR, we found that LogSSR did not account for 46 U.S. Navy ship port visits from Fiscal Year 2013 through 14 March 2014. Further, through limited testing of LogSSR, we found that 7 of 10 port visits conducted within the U.S. Fifth Fleet AOR only contained HSP documentation, such as cost estimates and invoices. As a result, LogSSR data should not be relied upon for management and budgeting decisions and does not support contract files.

As a result there are insufficient internal controls in place to oversee the acquisition of port goods and services. This creates an opportunity for misuse of Government resources. Based on our finding, the Navy needs to properly align fiduciary responsibility with the ships’ operational control/requiring activity.

---

6 When this comparison was conducted auditors excluded Patrol Craft and Minesweeper Countermeasure Ships that conducted port visits in Bahrain, as these ships were currently home ported there.
SECTION A: RESULTS OF AUDIT AND CORRECTIVE ACTIONS

Scheduling of Port Visits

We found that the U.S. Fifth and Sixth Fleets did not have sufficient controls in place over the management of classified ship schedules. For example, we found that Secret Internet Protocol Router Network (SIPRnet) account holders could obtain access to classified ship schedules for both the U.S. Fifth and Sixth Fleets merely by having a link to the portal. We find this to be a significant security weakness in that any SIPRnet account holder has access to U.S. Fifth and Sixth Fleets future ship operations, which could be shared with individuals and/or organizations without the need to know, such as contractors. For example, according to a criminal complaint that was part of a recent high-profile case, an enlisted Navy sailor had allegedly worked secretly on behalf of Glenn Defense Marine Asia by providing classified ship schedules and other sensitive U.S. Navy information in exchange for cash, travel expenses, and consumer electronics. Further, neither the U.S. Fifth or Sixth Fleets currently have formal guidance that outlines the scheduling process, access controls, and approval procedures. However, during this audit the U.S. Sixth Fleet was in the process of drafting an instruction for their ship scheduling process.

It is critical that the U.S. Fifth and Sixth Fleets limit access to ship schedules to authorized individuals with a need to know, and assign and maintain accountability for their custody and use. Additionally, the U.S. Fifth and Sixth Fleets should establish the necessary controls to periodically test controls to help reduce the risk of errors, fraud, misuse, or unauthorized alteration.

Segregation of Duties

We found that for the six ships we reviewed, the ordering, receiving, certifying, and paying functions for husbanding services were not properly segregated because they were all performed within the supply department. Specifically, the SUPPO as the senior officer within the supply department has presumptive undue influence over all ship personnel conducting these keys duties and responsibilities. Personnel who have the responsibility for receiving goods and services, certifying for, and making payments all report directly to the SUPPO, who is responsible for the ordering of goods and services. This arrangement provides the SUPPO the opportunity to fraudulently dictate what is ordered, indicate that goods and services were received, and order payment on these goods and services. Government Accountability Office (GAO) internal controls mandate that management divide these key responsibilities among different personnel and departments to reduce the risk of error, misuse, or fraud. This includes separating the responsibilities for authorizing transactions, processing and recording them, reviewing

---

7 For ships without disbursing officers, such as submarines, three of the four functions directly report to the SUPPO.
the transactions, and handling any related assets. Management should ensure that no one individual controls all key aspects of a transaction or event.

**Ordering of Supplies and Services**

We found significant internal control weaknesses within the ordering process for husbanding and port services. Specifically, ship SUPPOs did not fully understand their roles, responsibilities, and authorities as contracting/ordering officers, and did not receive the necessary contracting training to execute their responsibilities.

When a ship is scheduled to visit a port, it must convey its logistical requirements to a contracted HSP, who ultimately is responsible for arranging for the services to support the ship’s visit. To facilitate the ordering of these requirements, the senior SUPPO onboard the ship must be delegated contracting/ordering officer authority by the commanding officer. For husbanding services, the ship’s SUPPO provides an initial Logistics Requisition through a Naval Message (by way of the Operations Department onboard the ship) to the organizations responsible for coordinating the order. Ship requirements and limitations on what goods and services can be ordered can be found within TYCOM and U.S. Fifth and Sixth Fleets’ guidance. Ship SUPPOs delegated as ordering officers have the authority to order items set forth in a “Schedule of Supplies/Services and Prices,” on applicable regional contracts that provide for numerous fixed-price and unpriced CLINs. Ship SUPPOs do not have the authority to order goods or services outside the scope of these contracts. Our review of the ordering process found the following internal control weaknesses:

- 6 of 6 ship SUPPOs responsible for ordering ship requirements were not properly delegated contracting or ordering officer authority per FAR and NAVSUP guidance. All Ordering Officers must have training and be designated in writing, stating any limitations of authority, with a signed warrant (SF 1402). Our review of personnel files determined that ship SUPPOs either had not been delegated authority at all, or delegation forms used were improper and did not outline their authority.

- 4 of 6 ship SUPPOs did not utilize the contracts’ Schedule of Supplies/Services and Prices CLIN listing when ordering husbanding services. Through interviews, we determined that currently, ship SUPPOs develop Logistics Requisition requirements by utilizing historical port visit information as well as discussions with department heads onboard without regard to already contracted firm-fixed-priced line items.
• 8 of 12\textsuperscript{8} port visit files we reviewed showed that SUPPOs ordered items that were not within the scope of the contract, creating unauthorized commitments\textsuperscript{9} valued at approximately $439,000. For items not within the scope of the contract, ship SUPPOs who are properly appointed as contracting officers have the ability to procure goods and services, via a separate contract, up to the threshold stated within their delegation. However, because no ship SUPPOs we reviewed were properly delegated as Contracting/Ordering Officers, we determined that all delivery orders within the 12 port visit files we reviewed were unauthorized commitments. These delivery orders were valued at $3.5 million. We recommend the Navy conduct a thorough review of port service transactions in order to determine the magnitude of this problem and resolve this matter, both financially and legally.

• 5 of 6\textsuperscript{8} Ship SUPPOs paid a non-contracted variable markup instituted by the HSP for the U.S. Fifth Fleet AOR regional husbanding contract. For the 8 port visit files we reviewed covering the U.S. Fifth Fleet AOR, markups totaled approximately $36,000. In addition, we determined that 2,159 line items ordered on the U.S. Fifth Fleet regional husbanding contract for Fiscal Year 2013 contained an associated markup for all visits listed in LogSSR, worth at least $544,000. However, due to how data is entered into LogSSR, we were unable to capture the entire amount of markups paid.

Further, we found that the Navy did not institute sufficient internal controls to prevent ISS from soliciting quotes from other vendors on behalf of the Navy as well as provide their own quotes for items ordered that were not within the scope of the contract. In our opinion, this practice should not occur because ISS has visibility of competing vendor quotes and this provides an inherent conflict of interest and a distinct advantage over their competition. Additionally, when ISS indicates on quotations they were going to provide or perform the good or service, there was no supporting documentation provided that competing vendor quotes were more costly. Further, vendor quotes within the port visit files were only presented on ISS letterhead. As a result, we were unable to determine the legitimacy of quotes provided.

We also identified that personnel other than the ships’ SUPPOs have the potential to order or modify ship requirements during port visits, without authorization. Specifically, we found that a U.S. Fifth Fleet representative improperly modified ship requirements by directly contacting the HSP. It is imperative that internal controls be in place to ensure unauthorized personnel do not have the ability to obligate the Government without proper delegated authority.

\textsuperscript{8} The remaining files were for the 6th fleet AOR contract, which contains a miscellaneous CLIN allowing ship personnel to order any supplies/services needed. For that reason, we were unable to determine if items ordered were outside of the scope of the contract.

\textsuperscript{9} An agreement that is not binding solely because the Government representative who made it lacked the authority to enter into that agreement on behalf of the Government.
Additionally, the TYCOMs did not properly establish limits, monitor, or provide oversight to ensure the proper use of the contracting authority granted to them by NAVSUP. Also, the TYCOMs did not sufficiently establish minimum training requirements and/or a robust training regimen to ensure SUPPOs were able to adequately perform their duties as ordering officers. Further, NAVSUP does not require specific training for afloat contracting or ordering officers. Also compounding the weaknesses noted above, NAVSUP did not ensure TYCOMs properly granted contracting authority to ship SUPPOs. It is imperative that proper internal controls are in place to ensure acquisition procedures are in compliance with laws and regulations. Due to these significant internal control weaknesses, we recommend that contracting/ordering authority be rescinded from the TYCOMs and shifted to the appropriate Fleet Logistics Center to place orders for ships requiring husbanding and port services.

**Receipt and Acceptance of Supplies and Services**

We found significant internal control weaknesses within the receipt and acceptance process for husbanding and port services. Specifically, ship personnel did not properly verify quantities and amounts received on delivery tickets or maintain and track services provided, nor did personnel have knowledge of quantities ordered by the SUPPO relating to husbanding goods and services. When an HSP provides goods and services to a ship, personnel on the ship must validate that the goods or services ordered have been provided and the proper quantities have been received. Our review of the receipt and acceptance process found the following internal control weaknesses:

- We observed ship personnel sign for receipts/delivery tickets without physically verifying actual quantities of volume-based services. Also, ship personnel did not always verify truck levels prior to and after pumping. For example, we observed the following events:
  - Ship personnel signed a subcontractor receipt for 7,000 gallons of water when the ship only received 3,000 gallons.
  - Ship personnel signed a second subcontractor receipt for 7,000 gallons of water, but were unsure how much was actually received.
  - Two 4,000-gallon stand-by trucks were pier-side receiving CHT. A third 4,000-gallon truck then emptied the two stand-by trucks. Ship personnel were presented with two subcontractor receipts claiming that a total of 8,000 gallons of CHT was removed. However, as previously stated, the capacity of the truck was only 4,000 gallons and it was only ¾ full. Therefore, the Navy was charged and agreed to pay more than two times the amount for CHT removed from the ship.
o Ship files we reviewed showed that ship personnel did not always track the receipt of volume-based services, such as trash skiffs removed or CHT or potable water removed or received by barge.

o Ship files we reviewed showed that ship personnel did not properly maintain receipts/delivery tickets in order to support the payment process.
  - Ship personnel could only account for half of the receipts for waste water (CHT) invoiced to the ship during their port visit.
  - During an interview, one Sailor stated that if no one asks for the delivery tickets once the ship departs from port, he throws them away.

We attribute the above weaknesses to the TYCOMs who are responsible for manning, training, and equipping the ships. Ship personnel should have been trained on how to properly document and account for goods and services received. Without sufficient training, the Navy does not have assurance that it received the goods and services for which it has paid. To further compound the above issues, the U.S. Fifth and Sixth Fleets, NAVSUP, and TYCOMs had not come up with a sufficient surveillance plan to ensure that goods and services received were accurately measured, accounted for, and documented to support payments.

### Invoicing and Payments for Supplies and Services

We found significant internal control weaknesses within the invoicing and payment process for husbanding and port services. Specifically, personnel responsible for reviewing and reconciling invoices and processing payments did not fully understand their roles and responsibilities, and did not receive the necessary training to execute these duties. Our review of the invoicing and payments process found the following internal control weaknesses:

- Ship personnel did not always properly reconcile invoices for husbanding and port services received. Specifically,
  - 2 of 3 ships’ supply department personnel we observed did not always utilize receipts/delivery tickets to support receipt and acceptance when preparing DD 1155s.\(^{10}\) The supply personnel on the remaining ship used receipts; however, it was evident during our observation of the invoice process that actions taken were not common practice. For instance, not all receipts were maintained or provided to the supply department for reconciliation.

\(^{10}\) A DD 1155 is a combined purchase order, receiving report, and payment voucher.
6 of 6 ships’ supply department personnel did not use port tariff rates to validate invoiced charges. The HSP is required to provide a translated copy of port tariffs to the ship. However, during our review of port visit files, we determined that none of the ship files contained port tariff documentation. Port tariffs are mandatory costs associated with a vessel entering a port with established, or published, rates. Examples of port tariffs may include: pilots, tugs, line-handlers, potable water, and anchorage fees.

3 of 3 ships’ supply department personnel did not know how to convert or attempt to convert units of measure for volume-based invoiced items to support the preparation of DD 1155s. Specifically, two ship supply personnel relied on Google after recognizing they were unable to calculate conversions for CHT. The remaining ship supply personnel did not even attempt to reconcile volume-based items. This demonstrates that personnel had not previously performed calculations to support the reconciliation of invoices for conversions that are listed within the contract.

We found that ship personnel did not always process payments for husbanding and port services received in accordance with the DoD FMR. Specifically,

- 2 of 4 ship disbursing officers improperly acted as the certifying officer for payments they made valued at approximately $843,000. This function is not to be performed by a ship’s disbursing officer as it does not segregate duties.

- One ship’s disbursing officer signed and issued a Treasury check valued at approximately $480,000 without the SUPPO approving all supporting documentation for payment.

- Supply department personnel authorized payments on estimates for items not yet received. The Navy’s current practice is to make payments prior to departure from port. However, this practice conflicts with DoD FMR guidance regarding paying for items the Navy has not yet received. The Navy should utilize the Prompt Payment Act, which allows the Navy 30 days after final invoices are received in order to properly reconcile and make payments. Additionally, these estimated payments were not being tracked by Navy personnel. Currently the Navy relies on the contractor to report shortages and overages on estimated invoice payments. As a result, from 2011 to present, the Navy has received refund checks from the HSP, totaling approximately $900,000. The Navy is unclear to what ships or port visits these refunds apply.

---

11 As of February 2014, certifying procedures utilized by 1 of 4 disbursing officers would now be deemed compliant with DoD FMR guidance.

12 Four Submarine port visit files were exempt from this analysis as they do not have disbursing officers.
• We found that Commercial Bill Payment Office Naples and NAVSUP Fleet Logistics Center Sigonella Detachment Naples inappropriately processed payment packages from ships that do not have disbursing officers. Specifically, Commercial Bill Payment Office Naples relied on the HSP to contact ships so that errors found in payment packages for Minesweepers\textsuperscript{13} home-ported in Bahrain could be corrected. In our opinion, the Government should not rely on the HSP to be the intermediary to correct official financial documentation. This creates an opportunity for the HSP to potentially modify payment packages.

• We found that NAVSUP Fleet Logistics Center Sigonella Detachment Naples improperly certified payment packages\textsuperscript{14} provided by the HSP without validating the authenticity of this documentation. Specifically, NAVSUP Fleet Logistics Center Sigonella Detachment Naples does not have visibility of current ship supply personnel’s ordering and certifying authorities, receipt and acceptance documentation, and ship funding levels. Without proper visibility, NAVSUP Fleet Logistics Center Sigonella Detachment Naples cannot ensure that supporting vouchers are correct and proper for payment from the appropriation(s) or other funds cited, and that the proposed payments are legal, proper, and correct.

In our limited scope review of purchase card files, we found Patrol Craft Squadron 1, whose ships are home-ported in Bahrain, did not have sufficient controls in place to ensure personnel complied with NAVSUP and Commander, Naval Surface Force U.S. Atlantic guidance on Government Purchase Card usage.

Commander, Naval Surface Force U.S. Atlantic personnel stated that Patrol Craft Squadron 1 intended to utilize Government Purchase Cards as a method of payment to the contractor for husbanding and port services. This is in compliance with NAVSUP guidance, which allows purchase cards to be used to pay for firm-fixed-price delivery/task orders issued against Indefinite Delivery Type Contracts. However, we found that 40 of 52 of the squadron’s purchase card transactions reviewed incurred surcharges, totaling $4,830. This is not in compliance with Commander, Naval Surface Force U.S. Atlantic guidance, which states that Government Purchase Cards are not to be used if the vendor charges a surcharge for the use of credit cards to pay for supplies and services. Further, we found that the purchase files reviewed did not include purchase requests, and only contained an invoice and unsigned sales receipts, which does not provide an appropriate audit trail and is not in accordance with guidance.

Additionally, we found that the 52 purchase card transactions reviewed contained invoice charges for non-CLIN items, which are not within the scope of the husbanding contract. Since items are not being procured off of a current contract, cardholders must adhere to the NAVSUP Government Purchase Card procurement policies and procedures for

\textsuperscript{13}Minesweepers operating within the U.S. Fifth Fleet AOR are assets of the Seventh fleet.

\textsuperscript{14}For ships that do not have disbursing officers.
purchases over the micro-purchase threshold. NAVSUP guidance states that for requirements over the micro-purchase threshold, the contracting officer/buyer must solicit a reasonable number of quotes from qualified suppliers to promote competition to the maximum extent practicable and maintain market research and price reasonableness documentation within the purchase file. However, this documentation was not maintained in the purchase files reviewed. In addition, each cardholder has a dollar limit established for a single transaction, known as their single purchase limit. We found that 3 cardholders paid ISS over $235,000\(^\text{15}\) for husbanding and port services in one day, totaling 73 transactions. We believe that cardholders could potentially be splitting payments for non-CLIN items into two or more segments to avoid the cardholders’ single purchase limit.

The purpose of the single purchase limit is to require that purchases above established limits be subject to additional controls to ensure that they are properly reviewed and approved before the agency obligates funds. If limits are being circumvented, Commander, Naval Surface Force U.S. Atlantic has less control over the obligation and expenditure of its resources. In our opinion, the purchase card weaknesses noted above warrant a full review of the Patrol Craft Squadron 1 Government Purchase Card Program.

We attribute the above weaknesses to the TYCOMs, which are responsible for manning, training, and equipping the ships for deployment. Ship personnel should have been trained on how to properly review and reconcile invoices and process payments for goods and services received. Without sufficient training, the Navy does not have assurance that it received the goods and services for which it has paid. To further compound the above issues, the model utilized for making payments is improper and antiquated. The Navy needs to utilize the Prompt Payment Act, which would remove the need to make estimated payments and allow additional time to properly reconcile and make payments. Due to these significant internal control weaknesses, we recommend that the contract payment functions be removed from the ships and realigned with the requiring activity for certification.

**Administration of Contracts**

We found that NAVSUP Fleet Logistics Center Sigonella Detachment Naples did not establish sufficient controls to ensure five of five husbanding/port service contracts we reviewed were effectively administered. Specifically, NAVSUP did not properly appoint CORs, conduct surveillance, or maintain a contract file in accordance with FAR and DoD contracting regulations. Our review of the contract administration revealed the below internal control weaknesses:

---

\(^{15}\) This figure includes CLIN and Non-CLIN items purchased. Additionally, we did not test these 73 transactions due to our limited scope review of the Government Purchase Card program.
We found that NAVSUP had improperly appointed its own personnel as CORs instead of the requiring activity as required by DoD contracting policy. According to NAVSUP officials, the requiring activity (TYCOMs and U.S. Fifth and Sixth Fleets) would not nominate CORs to monitor husbanding and port services contracts within the U.S. Fifth and Sixth Fleets’ AORs. Since the CORs were not part of the requiring activity and did not conduct on-site surveillance, they did not have proper visibility over key COR responsibilities, such as how the U.S. Fifth and Sixth Fleets were utilizing the husbanding contracts, receiving and accepting goods and services, and ensuring the contractor and Government were conforming to the terms of the contract.

We found that NAVSUP in conjunction with the requiring activity (TYCOMs and the U.S. Fifth and Sixth Fleets) did not establish Quality Assurance Surveillance Plans (QASPs) for two of five contracts that were reviewed. The remaining three contracts contained QASPs that were insufficient as they did not require CORs to evaluate all critical aspects of contractors’ performance. Specifically, QASPs did not require CORs to evaluate:

- The contractor’s ability to provide actual goods and services as requested and identified within the contract;
- The contractor’s accuracy of volume-based services being provided pier side; and
- Adherence to contract pricing (i.e., markup charged by ISS).

Instead, QASPs focused solely on the contractor’s requirement to input invoice data timely and accurately into NAVSUP’s LogSSR or CRAFT systems, which LogSSR replaced. According to FAR 46.401, the QASP should specify all work requiring surveillance and the method of surveillance. Additionally, the DoD COR Handbook states that a QASP is an important tool the COR can use as a guide for systematically and effectively monitoring the quality of the services received, in compliance with the terms of the contract. Further, QASPs should be tailored to address the performance risks inherent to the specific contract type and the work effort addressed by contract.

We found that NAVSUP contracting and ship personnel did not maintain a sufficient contract administration file as required by FAR 4.8. Specifically, NAVSUP’s contract file did not always contain delivery/task orders and other supporting documentation issued by ship personnel. Additionally, NAVSUP did not establish the necessary management controls to obtain these documents from ship personnel. Further, 12 of 12 port visit files we reviewed did not contain the necessary documents to support the delivery/task orders issued by the SUPO. According to the FAR, documentation in contract files must be sufficient to constitute a complete background of the acquisition process, support contract

---

actions, provide information for reviews and investigations, and furnish essential facts in the event of litigation or Congressional inquiries. Files must be maintained at organizational levels that ensure effective documentation of contract actions.

**Internal Control Considerations**

The internal control weaknesses discussed above have significantly impacted the ability of USFFC, NAVCENT/U.S. Fifth Fleet, NAVEUR/NAVAF, U.S. Sixth Fleet, and NAVSUP to provide reasonable assurance to Navy leadership that internal control objectives are being achieved in the following categories:

- Effectiveness and efficiency of operations, including the use of the entity’s resources;
- Reliability of financial reporting; and
- Compliance with applicable laws and regulations.

According to GAO’s “Standards for Internal Control in the Federal Government,” internal controls serve as the first line of defense in safeguarding assets and preventing and detecting errors and fraud. Our audit of the USFFC management of husbanding and port services funds and NAVSUP’s administration of husbanding and port services contracts found that the overall operational environment is highly conducive to allowing fraud and abuse to go either undetected or not reported in a timely manner. GAO’s internal control standards require agencies to provide reasonable assurance regarding prevention, or prompt detection of, unauthorized acquisition, use, or disposition of an agency’s assets. Further, these standards provide the minimum level of quality acceptable for internal controls in the Government. These standards include:

- Control Environment;
- Risk Assessment;
- Control Activities;
- Information and Communications; and
- Monitoring.

These standards apply to all aspects of an agency’s operations: programmatic, financial, and compliance. In implementing these standards, management is responsible for developing the detailed policies, procedures, and practices to fit their agency’s operations and to ensure that they are built into an integral part of operations. Internal controls help Government program managers achieve desired results through effective stewardship of public resources. However, we found that USFFC, NAVCENT/U.S. Fifth Fleet,
NAVEUR/NAVAF/U.S. Sixth Fleet, and NAVSUP had neither sufficiently implemented these internal control standards, nor provided sufficient oversight over funding, operations, and contracting supporting a ship’s visit to port.

The recommendations that follow address the weaknesses identified in the report. When implemented, they will provide the Navy with a new model for acquiring husbanding and port services that more properly aligns the responsibilities for the funding and administration of port services contracts, and the receipt of and payment for goods and services received under these contracts.

**Recommendations and Corrective Actions**

Summarized management responses are presented below, along with our comments on those responses. The Secretary of the Navy provided a consolidated management response for the Assistant Secretary of the Navy (Financial Management and Comptroller (ASN (FM&C)) and the Naval Supply Systems Command (NAVSUP), in coordination with the Fleets. The complete text of management responses is in the Appendices.

We recommend the Secretary of the Navy in conjunction with the Chief of Naval Operations:

**Recommendation 1.** Designate an existing organization within the Navy with sufficient authority to be the Office of Primary Responsibility to (1) maintain awareness of the Navy’s acquisition and execution of husbanding and port services through continuous coordination with the individual commands involved; (2) conduct routine assessments of the individual commands to ensure regulatory compliance and identify and mitigate risks associated with the acquisition and execution of husbanding and port services; and (3) identify opportunities, efficiencies, and process improvements within the husbanding and port service process for recommendations to Navy leadership.

**Management response to Recommendation 1.** Partially concur. The Secretary of the Navy tasked the Assistant Secretary of the Navy (Research, Development, and Acquisition) and the Chief of Naval Operations to lead, and the Naval Supply Systems Command to support, the Department of Navy’s efforts to implement new procedures to alleviate areas of high risk with regard to husbanding and port services (HSP) contracts, as well as procedures for ongoing oversight and accountability. Additionally, Assistant Secretary of the Navy (Research, Development, and Acquisition) and the Chief of Naval Operations will update the Secretary of the Navy on the implementation of these efforts every 6 months. A formally designated “Office of Primary Responsibility” is not necessary based on the responsiveness of the stakeholders tasked and the actions already taken.
Naval Audit Service comment on response to Recommendation 1. Management addressed issues raised in the audit results, and actions planned in Recommendation 2 will also meet the intent of this recommendation upon completion. In subsequent communication, management provided an updated target completion date of 31 December 2014. We consider this recommendation open until actions proposed are completed.

Recommendation 2. Once the office has been designated, direct this office to clarify, Navy-wide, in writing, each command’s distinct responsibilities to ensure proper internal controls, oversight, compliance with applicable guidance, and accountability over husbanding and port service processes.

Management response to Recommendation 2. Concur. Assistant Secretary of the Navy (Research, Development, and Acquisition) memo of 11 March 2014, Secretary of the Navy memo of 30 April 2014, and Vice Chief of Naval Operations memo of 2 June 2014 resulted from an internal investigation into the Navy’s Husbanding Service Provider procedures to identify high-risk areas of concern. Together, these policy memoranda and associated actions create new Husbanding Service Provider-specific internal controls, oversight, compliance, and accountability. Most of the resulting guidance and processes are on track to be implemented by the end of Fiscal Year 2014. Those actions not completed will be reported to the Vice Chief of Naval Operations every 30 days until complete. Naval Supply Systems Command and the Fleets have already developed an overarching Plan of Action and Milestone to include all aspects of the HSP improvement efforts. The new Husbanding Service Provider contract internal controls resulting from the memos are noted in the management response letter in Appendix 1.

Naval Audit Service comment on response to Recommendation 2. Management addressed issues raised in the audit results, and actions planned meet the intent of the recommendation. The target completion date is 31 December 2014. The recommendation is considered open until actions proposed are completed.

We recommend Assistant Secretary of the Navy (Financial Management and Comptroller) in conjunction with the Chief of Naval Operations:

Recommendation 3. Re-allocate funding by means of internal functional transfer for husbanding and port services from U.S. Fleet Forces Command to the Numbered Fleets (e.g., U.S. Fifth Fleet, U.S. Sixth Fleet, etc.) in order to properly align fiduciary responsibility with ships’ operational control/requiring activity.
Management response to Recommendation 3. Partially concur. The Department of the Navy has established policies and procedures governing funds receipt and distribution, as well as comptrollers’ establishment, organizational placement, and responsibilities. The Office of Budget is the designated Echelon 1 activity responsible for governing comptroller organizations and allocating budget amounts to each Budget Submitting Office comptroller organization. Paragraph 5(d) of Secretary of the Navy (SECNAV) Instruction 7000.27B states that “Budget Submitting Office comptrollers shall evaluate the performance of comptrollers at all subordinate activities to which they provide funds. This includes ensuring that comptroller organizations are properly established and that comptroller personnel are trained to fulfill their responsibilities.” The Commander, Fleet Forces Command and Commander, Pacific Fleet are both Echelon 2 Budget Submitting Offices designated and documented as comptroller organizations and authorized to receive allocations and administrative funds control. The Numbered Fleets are neither designated nor delegated comptrollerships as a Budget Submitting Office. The Numbered Fleets’ financial offices are not adequately staffed to handle the volume of funds and business processes required for Husbanding Service Provider funding. Paragraph 5(k) of SECNAV Instruction 7000.27B states that adequate staffing requires realistic capability, and a sufficient number of capable, trained personnel. Type Commander organizations are adequately staffed to do so. Management will be establishing operating targets, spending caps, funding ceilings, and additional audit readiness objectives.

Naval Audit Service comment on response to Recommendation 3. Management addressed the issue raised in the audit results, and the action planned meets the intent of the recommendation. In subsequent communication, management provided an updated target completion date of 30 March 2015. The recommendation is considered open until action is completed.

Recommendation 4. Remove the husbanding and port services contract payment and certifying functions off the ships and realign these functions with the requiring activity.

Management response to Recommendation 4. Concur. The Fleets, Assistant Secretary of the Navy (Financial Management and Comptroller), and Naval Supply Systems Command are working to develop a FIAR-compliant pilot program to remove all vendor-payment for HSP contract actions from ships, as indicated in the response to Recommendation 2. Deploying units representative of all ship and submarine types will be identified to conduct the pilot program. A progress update was provided to the Vice Chief of Naval Operations on 11 July 2014 and noted that further detailed analysis and integration testing is
ongoing to determine the critical path and complex system interdependencies that must be resolved prior to a proof-of-principle trial. It is anticipated that a standard payment process will be developed by 12 September 2014.

**Naval Audit Service comment on response to Recommendation 4.**
Management addressed the issue raised in the audit results, and the action planned meets the intent of the recommendation. Management provided a completion date of 31 March 2015. Therefore, the recommendation is considered open until action is completed.

We recommend Commander, U.S. Fleet Forces Command in conjunction with the Type Commanders:

**Recommendation 5.** Nominate the appropriate number of qualified Contracting Officer’s Technical Representatives (COTRs) on ships to support the Contracting Officer’s Representatives (CORs) to verify the receipt and acceptance of husbanding contracts’ goods and services, as well as verify contractor performance.

**Management response to Recommendation 5.**
Concur. The Fleets will assign and train receiving officials to improve the oversight of Husbanding Service Provider contract performance during port visits. Training for receipt inspectors is in place for U.S. Fleet Forces units as part of their pre-deployment training. That training includes specific guidance on receipt inspection for Husbanding Service Provider provided services to include verification of volumetric quantities (e.g., potable water, CHT(collection, holding, and transfer)). The training also addresses the responsibility of the leadership team regarding dealings with Husbanding Service Provider representatives. Training started in May 2014 and to date 23 Commander, Atlantic Fleet units scheduled for deployment have received training. All units will receive this training prior to deployment. Additionally, Atlantic Fleet Type Commanders have been directed to designate qualified shipboard receipt inspectors in writing and such designation will include specific guidance related to receipt of Husbanding Service Provider provided services. The minimum quantity of designated receipt inspectors for Husbanding Service Provider services is the Supply Officer and any of the Supply Officer’s designated representatives. Typically this means the Supply Officer and assistants who serve as Duty Supply Officers in the Supply Officer’s absence. Additional inspectors may be designated based on the size of the ship and volume of transactions. Finally, subsequent discussions with Naval Supply Systems Command and the Naval Audit Service resulted in a revised assessment that Contracting Officer

---

17 The management response letter from Assistant Secretary of the Navy (Research, Development, and Acquisitions) (ASN (RDA)) responds to all of the recommendations in this report. The first response for Recommendations 5-10 and 18 are the responses found in the ASN (RDA) letter (Appendix 1). The secondary responses are those found in the remaining letters in Appendices 2-4.
Technical Representatives were not required, and that receipt inspectors are sufficient.

**U.S. Fleet Forces Command response to Recommendation 5.** Concur. U.S. Fleet Forces Command is working with Naval Supply Systems Command to determine the appropriate number of personnel to be assigned by their respective units as receipt inspectors on ships and submarines by 11 July 2014.

**Naval Audit Service comment on response to Recommendation 5.** Management addressed the issue raised in the audit results, and the action taken meets the intent of the recommendation. Management provided a completion date of 11 July 2014. Therefore, the recommendation is considered closed.

**Recommendation 6.** Establish controls to ensure appointed ship COTRs supporting husbanding service contracts receive the necessary training prior to deployment to perform their required duties and responsibilities.

**Management response to Recommendation 6.** Concur. In addition to the above-noted Contracting Officer Representative and receiving official improvements, U.S. Fleet Forces and Naval Supply Systems Command have completed and implemented Contracting Officer Technical Representatives pre-deployment training and have promulgated supplemental guidance to accompany the Contracting Officer Representative handbook.

**U.S. Fleet Forces Command response to Recommendation 6.** Concur. U.S. Fleet Forces Command is working with Naval Supply Systems Command to properly train personnel assigned by their respective units as receipt inspectors on ships and submarines by 11 July 2014.

**Naval Audit Service comment on response to Recommendation 6.** Management addressed the issue raised in the audit results, and the action planned meets the intent of the recommendation. Management provided a completion date of 11 July 2014. Therefore, the recommendation is considered closed.

We recommend the Commander, U.S. Fifth and Sixth Fleets:

**Recommendation 7.** Restrict access to ship schedules to authorized individuals with a need to know, and assign and maintain accountability for their custody and use.

**Management response to Recommendation 7.** Non-concur. Access to ship schedules is already limited to those with Secret Internet Protocol Router Network access, which requires a security clearance. Further restricting access to ship
schedules would limit the ability of multiple commands, staffs and organizations across the globe to coordinate complex operational, logistical, maintenance/repair and administrative requirements that must be executed in ports around the globe. However, Naval Supply Systems Command and the Fleets are reviewing the feasibility and potential benefits of further limiting the number of personnel authorized to create and modify ship schedules.

**U.S. Sixth Fleet response to Recommendation 7.** Non-Concur. Access to ship schedules is already limited to those with Secret Internet Protocol Router Network access, and thus a security clearance to view. Commander, U.S. Sixth Fleet considers in-place processes adequate to ensure an acceptable level of risk. The cost of implementing further controls outweighs benefits gained by restricting access to personnel with an identified “need to know.” Dramatically restricting access to ship schedules will limit the ability of multiple commands, staffs, and organizations across the globe to coordinate complex operational, logistical, maintenance/repair, and administrative requirements that must be executed in ports across the globe. Commander, U.S. Sixth Fleet concurs with limiting the number of persons that have an ability to write and/or modify scheduling requirements and has ensured that program properties limit the ability to authorized persons only.

**U.S. Fifth Fleet response to Recommendation 7.** Non-Concur. U.S. Fifth Fleet does not concur with creating and maintaining a “by name” access list for ship schedules. Schedules are located on a Secret Internet Protocol Router Network, which is restricted to those with, at a minimum, a Secret security clearance and who have been granted access by an appropriate command or authority. Commander, U.S. Fifth Fleet considers in-place processes to be adequate to ensure an acceptable level of risk. The loss of situational awareness and manpower cost of implementing individual by individual controls outweighs any potential benefits gained by restricting access further.

**Naval Audit Service comment on response to Recommendation 7.** The intent of the recommendation was to restrict access to ship schedules to reduce the risk of errors, fraud, misuse, or unauthorized alteration. Our Finding, “Scheduling of Port Visits,” identifies that Secret Internet Protocol Router Network (SIPRnet) account holders could obtain access to classified ship schedules for both the U.S. Fifth and Sixth Fleets merely by having a link to the portal. We find this to be a significant security weakness in that any SIPRnet account holder has access to U.S. Fifth and Sixth Fleets’ future ship operations, which could be shared with individuals and/or organizations without the need to know, such as contractors. As a result, this could provide an opportunity for fraud to occur similar to that identified in a recent high-profile case.
While we acknowledge the Fifth Fleet believes that the controls in place are sufficient, the Sixth Fleet has concurred with limiting the number of persons who are authorized to make changes within the scheduling system. The Assistant Secretary of the Navy (Research, Development, and Acquisition) also stated that Naval Supply Systems Command and the Fleets are reviewing the feasibility and potential benefits of further limiting the number of personnel authorized to create and modify ship schedules. Because they are taking steps to review this issue, we are considering this recommendation closed as of 15 August 2014.

**Recommendation 8.** Develop formal written guidance that outlines the ship scheduling process, access controls, and approval procedures.

**Management response to Recommendation 8.** Concur. The Fleets have drafted formal written guidance outlining the ship scheduling process, access controls, and approval procedures.

**U.S. Sixth Fleet response to Recommendation 8.** Concur. U.S. Commander Naval Forces Europe/U.S. Commander Naval Forces Africa/Commander, U.S. Sixth Fleet Instruction 3128.1, Port Visit Planning and Prioritization, was signed on 30 May 2014.

**U.S. Fifth Fleet response to Recommendation 8.** Concur. Operational Order (OPORD 1000) has been updated to provide guidance on the ship scheduling process, access control, and approval procedures.

**Naval Audit Service comment on response to Recommendation 8.** Management addressed the issue raised in the audit results, and the action planned meets the intent of the recommendation. Management provided a completion date of 29 June 2014. Therefore, the recommendation is considered closed.

**Recommendation 9.** Nominate the appropriate number of qualified CORs to perform surveillance over husbanding and port service contracts.

**Management response to Recommendation 9.** Concur. The Fleets are coordinating with Naval Supply Systems Command to determine the appropriate number of Contracting Officer Representatives required for effective Husbanding Service Provider contract oversight and have begun appointing and training Contracting Officer Representatives. The Fleets estimate identifying permanent, full-time-equivalent employees to all Contracting Officer Representative positions by 1 October 2014.
U.S. Sixth Fleet response to Recommendation 9. Concur. Four officers assigned to the staff have been trained and appointed as collateral duty Contracting Officer Representatives as an interim solution pending the hiring of two full time equivalent civilians. The new personnel have been selected and are awaiting notification by the Human Resources Office. They are anticipated to be full time equivalent members of the staff prior to the commencement of Fiscal Year 2015.

U.S. Fifth Fleet response to Recommendation 9. Concur. One officer and one senior chief petty officer assigned to the staff have been trained and appointed as collateral duty Contracting Officer Representatives as an interim solution pending the hiring of two full time equivalent civilians. U.S. Fifth Fleet, in coordination with U.S. Fleet Forces Command and Naval Supply Systems Command, will identify the appropriate number of Contracting Officer Representatives by 11 July 2014. Initially, two civilian GS-13 Contracting Officer Representative positions have been funded and are currently being advertised for potential applicants. These two positions are anticipated to be hired, trained, and in place to conduct the Husbanding Service Provider oversight mission by 31 October 2014.

Naval Audit Service comment on response to Recommendation 9. Management addressed the issue raised in the audit results, and the action planned meets the intent of the recommendation. U.S. Fifth Fleet provided a target completion date of 31 October 2014. The recommendation is considered open until action is completed.

We recommend the Commander, Naval Supply Systems Command in conjunction with the U.S. Fifth and Sixth Fleets’ CORs:

Recommendation 10. Develop Quality Assurance Surveillance Plans to provide surveillance of all critical areas of contractor performance and compliance with the contract terms.

Management response to Recommendation 10. Concur. Naval Supply Systems Command will enhance the Quality Assurance Surveillance Plans in all future Husbanding Service Provider contracts to include many of the elements from the ship port visit checklist to provide a framework for Husbanding Service Provider performance oversight. The checklist elements will be included at the order execution level as well as the overall contract level. In addition, while not formal Quality Assurance Surveillance Plans, many of the outlined tasks already underway increase quality assurance requirements for Husbanding Service Provider contracts. Specifically, standard Logistics Requirements Requests, standard requirements review process, standard checklists, new process guidance, removing vendor-payment off-ship, removing higher risk ordering off-ship,
elevating contracting authority for higher risk contract types, increasing contract oversight and service oversight by training and assigning more Contracting Officer Representatives and Receipt Inspectors, developing additional training for positions that deal with Husbanding Service Provider contracts and contractors, requiring thorough documentation of all Husbanding Service Provider services received and implementing new Husbanding Service Provider contracting strategies based on new policies and lessons learned. These Quality Assurance Surveillance Plan enhancements are being worked into the current solicitations for the Sixth and Seventh Fleet Region Two Husbanding Service Provider contracts.

**U.S. Sixth Fleet response to Recommendation 10.** Concur. The development and conduct of Quality Assurance Surveillance Plans was included in the Position Descriptions for the two civilian hires that are anticipated to be fully functioning members of the staff prior to the commencement of Fiscal Year 2015. It has also been directed that all ships utilize the supply officer port visit checklist, which is a key element of the Quality Assurance Surveillance Plan. Ships are required to forward this document to Commander, U.S. Sixth Fleet Contracting Officer Representative upon completion of a port visit.

**U.S. Fifth Fleet response to Recommendation 10.** Concur. The Contracting Officer Representative has been tasked to develop and implement Quality Assurance Surveillance Plans for all critical areas of contractor performance and compliance with contract terms. Quality Assurance Surveillance Plans are expected to be in place by 1 December 2014.

**Naval Audit Service comment on response to Recommendation 10.** Management addressed the issue raised in the audit results, and the action planned meets the intent of the recommendation. Management provided an updated target completion date of 1 December 2014. The recommendation is considered open until action is completed.

We recommend the Commander, Naval Supply Systems Command:

**Recommendation 11.** Ratify unauthorized commitments made by personnel for items ordered not within the scope of the contract or without proper authority.

**Management response to Recommendation 11.** Concur. Naval Supply Systems Command will work with Type Commanders to evaluate line items that were awarded without a price fixed by the Supply Officer. All unauthorized commitments will be reviewed and ratified, if appropriate, in accordance with the Federal Acquisition Regulation, the Defense Federal Acquisition Regulation Supplement, the Navy Marine Corps Acquisition Regulation Supplement, and Naval Supply Systems Command Instruction 4200.82 (Series).
**Naval Audit Service comment on response to Recommendation 11.**
Management addressed the issue raised in the audit results, and the action planned meets the intent of the recommendation. In subsequent communication, management provided an updated target completion date of 31 December 2014. The recommendation is considered open until action is completed.

**Recommendation 12.** Review N68171-12-D-0001 and eliminate the contract language creating the prohibited cost-plus-percentage-of-cost system, which does not incentivize the contractor to control cost.

**Management response to Recommendation 12.** Concur. Naval Supply Systems Command Fleet Logistics Center Sigonella removed all unpriced line items from N68171-12-D-0001 on 1 June 2014. In addition, Naval Supply Systems Command implemented the new interim ordering process on 1 August 2014 in the Sixth Fleet Area of Responsibility, ensuring unpriced items are definitized by Naval Supply Systems Command Fleet Logistics Center Sigonella prior to being ordered by ships. The interim process requires ships to forward all Logistics Requirements Requests to the Numbered Fleets for review. The Numbered Fleets will forward vetted requirements to the regional Fleet Logistics Center. The Fleet Logistics Center will review the requirement to determine whether it is within the scope of the current contract. All out-of-scope requests will be returned to the ship to be processed as new procurement actions. The Fleet Logistics Center will negotiate a price with the Husbanding Service Provider vendor for all in-scope requests and make a fair and reasonable pricing determination. The ship will then place a definitized order with the Husbanding Service Provider. In this way, only priced items will be provided to ships, thus eliminating all unpriced line items and all cost-plus-percentage-of-cost pricing.

**Naval Audit Service comment on response to Recommendation 12.** Management addressed the issue raised in the audit results, and has taken action that meets the intent of the recommendation. This recommendation is considered closed as of 1 August 2014.

**Recommendation 13.** Eliminate miscellaneous contract line item numbers in contracts N68171-07-D-0007 and N68171-12-D-0001 and clearly define the specific goods and services required within the scope of the contract.

**Management response to Recommendation 13.** Concur. N68171-07-D-0007 has been replaced with the new, standard Husbanding Service Provider regional contract that does not include unpriced line items and clearly defines the requirements. As indicated in Recommendation 12, Naval Supply Systems
Command is working with the Fleets to eliminate unpriced line items on all Husbanding Service Provider contracts by establishing an interim ordering procedure that definitizes all requirements prior to ordering.

**Naval Audit Service comment on response to Recommendation 13.**
Management addressed the issue raised in the audit results, and the action planned meets the intent of the recommendation. In subsequent communication, management provided a completion date of 1 June 2014. Therefore, the recommendation is considered closed.

**Recommendation 14.** Rescind contracting authority from the Type Commanders and ordering authority for husbanding services, and utilize the appropriate Fleet Logistics Center to place orders for ships requiring husbanding services.

**Management response to Recommendation 14.** Concur. Naval Supply Systems Command will issue a policy notification that rescinds contracting authority from Type Commanders and ships upon full implementation of the planned alignment of contract functions at the Fleet Logistics Centers and off-ship bill payment. In the meantime, ships must retain ordering authority for standard, firm-fixed priced items such as fuel, provisions, ship’s store, and other definitized Husbanding Service Provider requirements. As noted in the responses to Recommendations 2 and 12, Naval Supply Systems Command is working to establish an interim ordering process that definitizes requirements prior to ordering and provides improved oversight and requirement approval by the Numbered Fleets. Although Naval Supply Systems Command and the Fleets are working to develop a permanent, or “To-Be” solution to remove Husbanding Service Provider orders and bill-payment from ships, the interim ordering process is in-place as of 1 August 2014.

**Naval Audit Service comment on response to Recommendation 14.**
Management addressed the issue raised in the audit results, and the action planned meets the intent of the recommendation. In subsequent communication, management provided an interim target completion date of 15 October 2014. The recommendation is considered open until action is completed.

**Recommendation 15.** Modify husbanding and port services contracts to require that the contractor submit invoices directly to the certifying organization for certification and utilization of the Prompt Payment Act.

**Management response to Recommendation 15.** Concur. All Husbanding Service Provider contracts are being standardized based on new policy and lessons learned and all vendor-payment functions will be transitioned off-ship.
Naval Audit Service comment on response to Recommendation 15. Management addressed the issue raised in the audit results, and the action planned meets the intent of the recommendation. In subsequent communication, management provided an updated target completion date of 15 December 2014. The recommendation is considered open until action is completed.

Recommendation 16. Establish controls and provide oversight to ensure all husbanding and port services contract documentation is maintained in accordance with the Federal Acquisition Regulation.

Management response to Recommendation 16. Concur. Naval Supply Systems Command contracting officers will review Contracting Officer Representative files in accordance with the Federal Acquisition Regulation, the Defense Federal Acquisition Regulation Supplement, the Navy Marine Corps Acquisition Regulation Supplement and current Naval Supply Systems Command Contracting Officer Representative instructions. Naval Supply Systems Command is also reviewing Fleet Logistics Center-issued Husbanding Service Provider task orders in accordance with Naval Supply Systems Command Instruction 4200.82 (Series).

Naval Audit Service comment on response to Recommendation 16. In subsequent communication, management provided specific controls, which will be implemented with the hiring of Contracting Officer’s Representatives and supplied a target completion date of 31 December 2014. This action will meet the intent of the recommendation and we are considering it open until action is completed.

Recommendation 17. Establish and define intent of Logistics Support Services Repository and formalize its official use, to include implementing controls to ensure data in the system is suitably reliable for its intended purpose.

Management response to Recommendation 17. Concur. Logistics Support Services Repository will continue to be used to provide estimated costs in advance of port visits and to serve as a repository for archived port visit data and reference materials (Contracts, Fleet Guidance Messages, Contracting Officer Representative Handbook, Husbanding Service Provider Ordering Guide, port visit checklists, and standard Logistics Requirements Requests). Once Fleet Contracting Officer Representatives are in place, data will be entered by Contracting Officer Representatives based on actual expenditures from payment documents. Fleet Contracting Officer Representatives are also part of the requirements review process and will ensure all port visits are logged in the system.
Naval Audit Service comment on response to Recommendation 17.
Management addressed the issue raised in the audit results, and the action planned meets the intent of the recommendation. In subsequent communication, management provided a completion date of 27 May 2014. Therefore, the recommendation is considered closed.

We recommend the Commander, U.S. Fleet Forces Command in conjunction with Commander, Naval Surface Force U.S. Atlantic Fleet and Commander, Naval Supply Systems Command:

**Recommendation 18.** Conduct a full review of the Patrol Craft Squadron 1 Government Purchase Card Program to ensure compliance with Naval Supply Systems Command and Type Commander guidance.


Naval Audit Service comment on response to Recommendation 18. Management addressed the issue raised in the audit results, and the action planned meets the intent of the recommendation. In subsequent communication, management provided an interim completion date of 31 December 2014. Therefore, the recommendation is considered open until action is completed.

We recommend the Assistant Secretary of the Navy for Financial Management and Comptroller in conjunction with Commander, U.S. Fleet Forces Command and Commander, Naval Supply Systems Command:

**Recommendation 19.** Determine amount of and recoup improper markups paid to Inchcape Shipping Services, and provide oversight to ensure the Navy does not pay additional fees in the future.

Management response to Recommendation 19. Concur. An administrative agreement between the Department of the Navy and Inchcape Shipping Services,
dated 10 January 2014, addresses improper markups paid to Inchcape and recoupment. Naval Audit Service comment on response to Recommendation 19. Management addressed the issue raised in the audit results, and the action planned meets the intent of the recommendation. In subsequent communication, management provided an updated completion date of 15 August 2014. Therefore, the recommendation is considered closed.
<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>
</thead>
<tbody>
<tr>
<td>1</td>
<td>1</td>
<td>19</td>
<td>Designate an existing organization within the Navy with sufficient authority to be the Office of Primary Responsibility to (1) maintain awareness of the Navy’s acquisition and execution of husbanding and port services through continuous coordination with the individual commands involved; (2) conduct routine assessments of the individual commands to ensure regulatory compliance and identify and mitigate risks associated with the acquisition and execution of husbanding and port services; and (3) identify opportunities, efficiencies, and process improvements within the husbanding and port service process for recommendations to Navy leadership.</td>
<td>O</td>
<td>Secretary of the Navy in conjunction with the Chief of Naval Operations</td>
<td>12/31/2014</td>
<td></td>
</tr>
<tr>
<td>1</td>
<td>2</td>
<td>20</td>
<td>Once the office has been designated, direct this office to clarify, Navy-wide, in writing, each command’s distinct responsibilities to ensure proper internal controls, oversight, compliance with applicable guidance, and accountability over husbanding and port service processes.</td>
<td>O</td>
<td>Secretary of the Navy in conjunction with the Chief of Naval Operations</td>
<td>12/31/2014</td>
<td></td>
</tr>
<tr>
<td>1</td>
<td>3</td>
<td>20</td>
<td>Re-allocate funding by means of internal functional transfer for husbanding and port services from U.S. Fleet Forces Command to the Numbered Fleets (e.g., U.S. Fifth Fleet, U.S. Sixth Fleet, etc.) in order to properly align fiduciary responsibility with ships’ operational control/requiring activity.</td>
<td>O</td>
<td>Assistant Secretary of the Navy for Financial Management and Comptroller in conjunction with the Chief of Naval Operations</td>
<td>3/30/2015</td>
<td></td>
</tr>
</tbody>
</table>

---

18 / + = Indicates repeat finding.
19 / 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.
20 If applicable.
## 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>
</thead>
<tbody>
<tr>
<td>1</td>
<td>4</td>
<td>21</td>
<td>Remove the husbanding and port services contract payment and certifying functions off the ships and realign these functions with the requiring activity.</td>
<td>O</td>
<td>Assistant Secretary of the Navy for Financial Management and Comptroller in conjunction with the Chief of Naval Operations</td>
<td>3/31/2015</td>
<td></td>
</tr>
<tr>
<td>1</td>
<td>5</td>
<td>22</td>
<td>Nominate the appropriate number of qualified Contracting Officer’s Technical Representatives (COTRs) on ships to support the Contracting Officer’s Representatives (CORs) to verify the receipt and acceptance of husbanding contracts’ goods and services, as well as verify contractor performance.</td>
<td>C</td>
<td>Commander, United States Fleet Forces Command in conjunction with Type Commanders</td>
<td>7/11/2014</td>
<td></td>
</tr>
<tr>
<td>1</td>
<td>6</td>
<td>23</td>
<td>Establish controls to ensure appointed ship COTRs supporting husbanding service contracts receive the necessary training prior to deployment to perform their required duties and responsibilities.</td>
<td>C</td>
<td>Commander, United States Fleet Forces Command in conjunction with Type Commanders</td>
<td>7/11/2014</td>
<td></td>
</tr>
<tr>
<td>1</td>
<td>7</td>
<td>23</td>
<td>Restrict access to ship schedules to authorized individuals with a need to know, and assign and maintain accountability for their custody and use.</td>
<td>C</td>
<td>Commander, U.S. Fifth Fleet and Commander, U.S. Sixth Fleet</td>
<td>8/15/2014</td>
<td></td>
</tr>
<tr>
<td>1</td>
<td>8</td>
<td>25</td>
<td>Develop formal written guidance that outlines the ship scheduling process, access controls, and approval procedures.</td>
<td>C</td>
<td>Commander, U.S. Fifth Fleet and Commander, U.S. Sixth Fleet</td>
<td>6/29/2014</td>
<td></td>
</tr>
<tr>
<td>1</td>
<td>9</td>
<td>25</td>
<td>Nominate the appropriate number of qualified CORs to perform surveillance over husbanding and port service contracts.</td>
<td>O</td>
<td>Commander, U.S. Fifth Fleet and Commander, U.S. Sixth Fleet</td>
<td>10/31/2014</td>
<td></td>
</tr>
<tr>
<td>1</td>
<td>10</td>
<td>26</td>
<td>Develop Quality Assurance Surveillance Plans to provide surveillance of all critical areas of contactor performance and compliance with the contract terms.</td>
<td>O</td>
<td>Commander, Naval Supply Systems Command in conjunction with the U.S. Fifth and Sixth Fleets’ Contracting Officer’s Representatives</td>
<td>12/1/2014</td>
<td></td>
</tr>
<tr>
<td>1</td>
<td>11</td>
<td>27</td>
<td>Ratify unauthorized commitments made by personnel for items ordered not within the scope of the contract or without proper authority.</td>
<td>O</td>
<td>Commander, Naval Supply Systems Command</td>
<td>12/31/2014</td>
<td></td>
</tr>
<tr>
<td>Finding</td>
<td>Rec. No.</td>
<td>Page No.</td>
<td>Subject</td>
<td>Status</td>
<td>Action Command</td>
<td>Target or Actual Completion Date</td>
<td>Interim Target Completion Date</td>
</tr>
<tr>
<td>---------</td>
<td>---------</td>
<td>----------</td>
<td>---------</td>
<td>--------</td>
<td>----------------</td>
<td>----------------------------------</td>
<td>-------------------------------</td>
</tr>
<tr>
<td>1</td>
<td>12</td>
<td>28</td>
<td>Review N68171-12-D-0001 and eliminate the contract language creating the prohibited cost-plus-percentage-of-cost system, which does not incentivize the contractor to control cost.</td>
<td>C</td>
<td>Commander, Naval Supply Systems Command</td>
<td>8/1/2014</td>
<td></td>
</tr>
<tr>
<td>1</td>
<td>13</td>
<td>28</td>
<td>Eliminate miscellaneous contract line item numbers in contracts N68171-07-D-0007 and N68171-12-D-0001 and clearly define the specific goods and services required within the scope of the contract.</td>
<td>C</td>
<td>Commander, Naval Supply Systems Command</td>
<td>6/1/2014</td>
<td></td>
</tr>
<tr>
<td>1</td>
<td>14</td>
<td>29</td>
<td>Rescind contracting authority from the Type Commanders and ordering authority for husbanding services, and utilize the appropriate Fleet Logistics Center to place orders for ships requiring husbanding services.</td>
<td>O</td>
<td>Commander, Naval Supply Systems Command</td>
<td>10/15/2014</td>
<td></td>
</tr>
<tr>
<td>1</td>
<td>15</td>
<td>29</td>
<td>Modify husbanding and port services contracts to require that the contractor submit invoices directly to the certifying organization for certification and utilization of the Prompt Payment Act.</td>
<td>O</td>
<td>Commander, Naval Supply Systems Command</td>
<td>12/15/2014</td>
<td></td>
</tr>
<tr>
<td>1</td>
<td>16</td>
<td>30</td>
<td>Establish controls and provide oversight to ensure all husbanding and port services contract documentation is maintained in accordance with the Federal Acquisition Regulation.</td>
<td>O</td>
<td>Commander, Naval Supply Systems Command</td>
<td>12/31/2014</td>
<td></td>
</tr>
<tr>
<td>1</td>
<td>17</td>
<td>30</td>
<td>Establish and define intent of Logistics Support Services Repository and formalize its official use, to include implementing controls to ensure data in the system is suitably reliable for its intended purpose.</td>
<td>C</td>
<td>Commander, Naval Supply Systems Command</td>
<td>5/27/2014</td>
<td></td>
</tr>
<tr>
<td>1</td>
<td>18</td>
<td>31</td>
<td>Conduct a full review of the Patrol Craft Squadron 1 Government Purchase Card Program to ensure compliance with Naval Supply Systems Command and Type Commander guidance.</td>
<td>O</td>
<td>Commander, U.S. Fleet Forces Command in conjunction with Commander, Naval Surface Force U.S. Atlantic Fleet and Commander, Naval Supply Systems Command</td>
<td>12/31/2014</td>
<td></td>
</tr>
<tr>
<td>Finding No.</td>
<td>Rec. No.</td>
<td>Page No.</td>
<td>Subject</td>
<td>Status</td>
<td>Action Command</td>
<td>Target or Actual Completion Date</td>
<td>Interim Target Completion Date</td>
</tr>
<tr>
<td>------------</td>
<td>---------</td>
<td>----------</td>
<td>-------------------------------------------------------------------------</td>
<td>--------</td>
<td>-------------------------------------------------------------------------------</td>
<td>---------------------------------</td>
<td>-------------------------------</td>
</tr>
<tr>
<td>1</td>
<td>19</td>
<td>31</td>
<td>Determine amount of and recoup improper markups paid to Inchcape</td>
<td>C</td>
<td>Assistant Secretary of the Navy for Financial Management and Comptroller in</td>
<td>8/15/2014</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Shipping Services, and provide oversight to ensure the Navy does not</td>
<td></td>
<td>conjunction with Commander, U.S. Fleet Forces Command and Commander, Naval</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>pay additional fees in the future.</td>
<td></td>
<td>Supply Systems Command</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Exhibit A: Pertinent Guidance

10 U.S. Code 2306, “Kinds of Contracts,” dated 3 January 2012, states that the cost-plus-a-percentage-of-cost system of contracting may not be used. Subject to the limitation in the preceding sentence, the other provisions of this section, and other applicable provisions of law, the head of an agency, in awarding contracts under this chapter after using procedures other than sealed-bid procedures, may enter into any kind of contract that he considers will promote the best interests of the United States.

18 U.S. Code 287, “False, Fictitious or Fraudulent Claims,” dated 3 January 2012, states that whoever makes or presents to any person or officer in the civil, military, or naval service of the United States, or to any department agency thereof, any claim upon or against the United States, or any other department or agency thereof, knowing such claim to be false, fictitious, or fraudulent, shall be imprisoned not more than 5 years and shall be subject to a fine in the amount provided in this title.

Federal Acquisition Regulation, dated March 2005, is the primary regulation for use by all Federal Executive agencies in their acquisition of supplies and services with appropriated funds. The Department of Defense (DoD) implementation and supplementation of the Federal Acquisition Regulation is issued in the Defense Federal Acquisition Regulation Supplement.

Government Accountability Office Internal Control Standards, dated November 1999, provides the overall framework for establishing and maintaining internal control and for identifying and addressing major performance and management challenges and areas at greatest risk of fraud, waste, abuse, and mismanagement.


Department of Defense Contracting Officer Representative Handbook, dated 22 March 2012, provides basic knowledge and tools for Contracting Officer’s Representatives (CORs) to perform effective contract quality surveillance.
Naval Supply Systems Command Instruction 4200.99, dated 13 October 2006, provides Department of the Navy guidance on policies and procedures regarding the use of the Government-Wide Commercial Purchase Card program.

Naval Supply Systems Command Instruction 4200.85D, dated 25 April 2005, provides Department of the Navy guidance and procedures necessary to successfully utilize Simplified Acquisition Procedures for ashore and afloat activities, and guidance on Items Requiring Special Attention and the Naval Contingency Contracting Program.

Commander, Naval Surface Forces Atlantic Fiscal Year 14 Comptroller Financial Guidance, dated 6 January 2014, promulgates Commander Naval Surface Force Atlantic policies and procedures for the administration of financial resources provided to assigned units/activities.

Commander, Naval Surface Forces Instruction 4400.1, dated 25 August 2008, provides policy and procedures for supply operations in Commander, Naval Surface Forces ships. Policies and procedures in this instruction are mandatory for all Commander, Naval Surface Force afloat commands and shore units.

Commander, Naval Air Forces Instruction 4440.2, dated 10 March 2006, governs the supply department operations of the aircraft carrier (CVN).

Commander, Naval Submarine Force Atlantic/Commander, Naval Submarine Force Pacific Instruction 7330.5A, dated 26 January 2000, promulgates combined Commander, Naval Submarine Forces Atlantic/Commander, Naval Submarine Forces Pacific procedures for the management of operating forces and shore activities’ financial resources.

Commander, Naval Submarine Force Atlantic/Commander, Naval Submarine Force Pacific Instruction 4406.1A, dated 26 March 2012, provides policy and procedures for supply operations on ships of the Submarine Force.
We conducted the audit of husbanding and port services contracts between 19 December 2013 and 2 June 2014. This report addresses areas of improvement regarding internal controls in the husbanding and port services contracting process for U.S. Navy ships, specifically within the U.S. Fifth and Sixth Fleets’ areas of responsibilities (AORs). We discussed the audit results with senior Navy leadership in April 2014 and May 2014 (see Exhibit C).

We reviewed compliance with the Federal Acquisition Regulation, Department of Defense, and Department of the Navy policies and procedures applicable to husbanding and port services contracts. We interviewed U.S. Fleet Forces Command (USFFC), Commander Submarine Force U.S. Atlantic Fleet, Commander Naval Air Force U.S. Atlantic Fleet, Commander Naval Surface Force U.S. Atlantic Fleet, U.S. Naval Forces Central Command (NAVCENT)/U.S. Fifth Fleet, U.S. Naval Forces Europe-Africa (NAVAF/NAVEUR)/U.S. Sixth Fleet, Naval Supply Systems Command (NAVSUP), and ship personnel to determine the husbanding and port services process from cradle to grave and identify any potential internal control weaknesses. We interviewed USS DWIGHT D. EISENHOWER, USS KEARSARGE, and USS SCRANTON personnel during our Norfolk, VA site visit, and personnel from the USS HARRY S. TRUMAN, USS GETTYSBURG, and USS SAN JUAN during our Bahrain site visit.

We reviewed the four regional contracts that are in place to provide port services in the Sixth Fleet AOR (N68171-07-D-0007, N68171-07-D-0010, N62588-03-D-7000, and N68171-12-D-0001) and the one regional contract for the U.S. Fifth Fleet AOR (N49400-05-D-A008) to determine the sufficiency of contracting officer’s representative documentation, appointment letters, quality assurance surveillance plans, and contract requirements and modifications.

We judgmentally (arbitrarily) selected and reviewed two port visit files each from the USS DWIGHT D. EISENHOWER, USS KEARSARGE, USS SCRANTON, USS HARRY S TRUMAN, USS GETTYSBURG, and USS SAN JUAN, valued at a total of approximately $3.5 million, to determine sufficiency of documentation, in accordance with Federal Acquisition Regulation guidelines. During our Bahrain site visit, we observed a live port visit from the USS HARRY S TRUMAN, USS GETTYSBURG, and USS SAN JUAN to determine the husbanding and port services process from cradle to grave and identify any potential internal control weaknesses. We conducted a site visit to Naples, Italy to

---

21 Complete port visit file universe is unknown.
observe port services in the Sixth Fleet AOR; however, we were unable to conduct observations due to unforeseen changes in the ships’ schedules.

We conducted analysis of NAVSUP’s Logistics Support Services Repository (LogSSR) and out of 478 files, we judgmentally selected the 10 highest-dollar value port visits to determine the system’s accuracy and reliability of port visit file data. In order to verify the accuracy of the markup charges paid in Fiscal Year 2013 under the Fifth Fleet contract and contract option years one and two (1 April 2012 to 31 March 2014) for the U.S. Africa Command AOR contract, we selected a sample of markup charges and compared them to invoices found within LogSSR.

Through the Naval Audit Service data mining team, we obtained and reviewed Patrol Craft purchase card transactions for Inchcape Shipping Services between Fiscal Year 2013 through 19 March 2014 to determine if cardholders were making purchases in accordance with guidance. We also requested complete purchase card documentation files for 3 months, to determine if files were maintained in accordance with guidance.

We selected and reviewed payment vouchers from 2 October 2012 to 4 March 2014 from all four contracts pertaining to the Sixth Fleet AOR to determine if payment packages provided to NAVSUP Fleet Logistics Center Sigonella Detachment Naples were proper for payment. Specifically, we selected and reviewed all payment vouchers for 2 contracts (N68171-07-D-0010 (3 vouchers) and N62588-03-D-7000 (5 vouchers)), and judgmentally selected and reviewed every other payment voucher for two contracts (N6817-07-D-0007 (36 of 71 vouchers) and N68171-12-D-0001(18 of 36 vouchers)). Total value of the sampled vouchers reviewed was $3.5 million.

We reviewed Naval Audit Service, Department of Defense Inspector General, and General Accountability Office reports and found Naval Audit Service reports published within the past 5 years which covered husbanding and port service contracts. However, the scope of the prior audits did not entail a review of the entire husbanding and port service process. As such, no followup was necessary. The audit was conducted in accordance with Generally Accepted Government Auditing Standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives. Given that our objective was to identify internal control weaknesses within the Navy’s husbanding and port service process, not all findings contain cause and effect. This did not hinder our ability to develop recommendations for corrective action as the internal control weaknesses we identified are significant within the context of the audit objective.
### Exhibit C:

**Briefings with Management**

<table>
<thead>
<tr>
<th>Official</th>
<th>Position</th>
<th>Date of Briefing</th>
</tr>
</thead>
<tbody>
<tr>
<td>Paul Oostburg Sanz</td>
<td>General Counsel of the Navy</td>
<td>15 April 2014</td>
</tr>
<tr>
<td>Elliott Branch</td>
<td>Deputy Assistant Secretary of the Navy Acquisition and Procurement</td>
<td>16 April 2014</td>
</tr>
<tr>
<td>Rear Admiral Yuen</td>
<td>Commander, Naval Supply Systems Command</td>
<td>21 April 2014</td>
</tr>
<tr>
<td>Admiral Ferguson</td>
<td>Vice Chief of Naval Operations</td>
<td>24 April 2014</td>
</tr>
<tr>
<td>Vice Admiral Cullom</td>
<td>Deputy Chief of Naval Operations for N4</td>
<td>24 April 2014</td>
</tr>
<tr>
<td>Vice Admiral Grosklags</td>
<td>Principal Military Deputy Assistant Secretary of the Navy for Research</td>
<td>24 April 2014</td>
</tr>
<tr>
<td></td>
<td>Development, and Acquisition</td>
<td></td>
</tr>
<tr>
<td>Dr. Susan Rabern</td>
<td>Assistant Secretary of the Navy for Financial Management and Comptroller</td>
<td>29 April 2014</td>
</tr>
<tr>
<td>Thomas Hicks</td>
<td>Acting Under Secretary of the Navy</td>
<td>1 May 2014</td>
</tr>
<tr>
<td>Admiral Gortney</td>
<td>Commander, U.S. Fleet Forces Command</td>
<td>5 May 2014</td>
</tr>
<tr>
<td>Rear Admiral Gumataotao</td>
<td>Commander, Naval Surface Force Atlantic</td>
<td>5 May 2014</td>
</tr>
<tr>
<td>Rear Admiral Shoemaker</td>
<td>Commander, Naval Air Force Atlantic</td>
<td>5 May 2014</td>
</tr>
<tr>
<td>Rear Admiral Polowczyk</td>
<td>Director, Fleet Ordnance and Supply, Fleet Supply Officer, U.S. Fleet</td>
<td>5 May 2014</td>
</tr>
<tr>
<td></td>
<td>Forces Command</td>
<td></td>
</tr>
<tr>
<td>Charles Werchado</td>
<td>Executive Director, Submarine Forces</td>
<td>6 May 2014</td>
</tr>
<tr>
<td>Vice Admiral Miller</td>
<td>Commander, U.S. Naval Forces Central Command/U.S. Fifth Fleet/Combined</td>
<td>15 May 2014</td>
</tr>
<tr>
<td></td>
<td>Maritime Forces</td>
<td></td>
</tr>
<tr>
<td>Vice Admiral Davidson</td>
<td>Deputy Commander, U.S. Naval Forces Europe, U.S. Naval Forces Africa/Commander, U.S. Sixth Fleet/Joint Force Maritime Component Commander Europe</td>
<td>28 May 2014</td>
</tr>
</tbody>
</table>
Exhibit D:

Activities Visited or Contacted

U.S. Fleet Forces Command, Norfolk, VA
Commander, U.S. Naval Forces Central Command/U.S. Fifth Fleet, Manama, Bahrain
Commander, U.S. Naval Forces Europe-Africa Command/U.S. Sixth Fleet, Naples, Italy
Commander, Submarine Force U.S. Atlantic Fleet, Norfolk, VA
Commander, Naval Air Force U.S. Atlantic Fleet, Norfolk, VA
Commander, Naval Surface Force U.S. Atlantic Fleet, Norfolk, VA
Naval Supply Systems Command, Mechanicsburg, PA
Naval Supply Systems Command, Fleet Logistics Center Sigonella Detachment Naples, Naples, Italy
Naval Supply Systems Command, Fleet Logistics Center Bahrain, Manama, Bahrain
Commercial Bill Payment Office, Naples, Italy
Appendix 1:
Management Response from the Assistant Secretary of the Navy (Research, Development, and Acquisition)

MEMORANDUM FOR ASSISTANT AUDITOR GENERAL FOR RESEARCH, DEVELOPMENT AND ACQUISITION AUDITS

SUBJECT: Response to the Navy Husbanding and Port Services Contracts Draft Audit Report 2014 - 093

I am responding to the Naval Audit Service’s Draft Audit Report, Navy Husbanding and Port Services Contracts, 2014-093 (June 2, 2014) on behalf of the Secretary of the Navy. This response also serves as the Assistant Secretary of the Navy (Financial Management & Comptroller (ASN (FM&C)) and the Naval Supply Systems Command (NAVSUP) response, and has been coordinated with the Fleets.

I have carefully reviewed this draft audit report, and have determined that its findings and recommendations are substantially in line with the Assistant Secretary of the Navy (Research, Development & Acquisition (ASN (RD&A))) findings and recommendations. ASN (RD&A), the Chief of Naval Operations, NAVSUP and the Fleets have already accomplished many of the end goals and are diligently moving forward on additional improvements to the Navy’s Husbanding and Port Service (HSP) contract processes.

The Secretary of the Navy, ASN (FM&C), and NAVSUP concur with all but the following three recommendations in the draft audit report:

- Recommendation no. 1 - to establish an “Office of Primary Responsibility” over HSP contracting. The Navy partially concurs with this recommendation. The Navy believes that the intent of this recommendation, to increase oversight and accountability in HSP contracting, is already being accomplished through other actions, without the need to officially assign an “Office of Primary Responsibility.”

- Recommendation no. 3 - to re-allocate HSP contract funding from the U.S. Fleet Forces Command to the Numbered Fleets. The Navy partially concurs because the Numbered Fleets are not delegated Budget Submitting Office comptroller authority nor are they properly staffed or trained to be delegated this authority. The intent of this recommendation has been met, however, because the Fleets have established new operating targets and spending caps, increasing the Numbered Fleets’ fiduciary responsibility and accountability, and because the ASN (FM&C) has aligned enterprise-level internal controls to facilitate additional audit readiness objectives.
SUBJECT: Response to the Navy Husbanding and Port Services Contracts Draft Audit Report 2014 - 093

- Recommendation no. 7 - to further restrict access to ship schedules. The Navy non-concurs because ship schedules are already secured in their location on the Secret Internet Protocol Router Network, requiring a security clearance to access, and because further restricting access would limit the ability to coordinate complex, operational, and logistical requirements around the globe.

The attachment has more detailed responses to each of the Naval Audit Service’s recommendations. Should you have any questions concerning this memorandum or the attached response, please contact [removed] by email at [removed] or by phone at [removed].

Sean J. Stackley

Attachments:
Recommenda**tion 1**: Designate an existing organization within the Navy with sufficient authority to be the Office of Primary Responsibility to (1) maintain awareness of the Navy’s acquisition and execution of husbanding and port services through continuous coordination with the individual commands involved; (2) conduct routine assessments of the individual commands to ensure regulatory compliance and identify and mitigate risks associated with the acquisition and execution of husbanding and port services; and (3) identify opportunities, efficiencies, and process improvements within the husbanding and port service process for recommendations to Navy leadership.

**Navy Response**: Partially concur. The Secretary of the Navy (SECNAV) tasked the Assistant Secretary of the Navy (Research, Development, and Acquisition) (ASN(RD&A)) and the Chief of Naval Operations (CNO) to lead, and the Naval Supply Systems Command (NAVSUP) to support, the Department of Navy’s efforts to implement new procedures to alleviate areas of high risk with regards to husbanding and port services (HSP) contracts, as well as procedures for ongoing oversight and accountability. See ASN(RD&A) memo of 11 March 2014 (hereinafter “Reference (a)’’); SECNAV memo of 30 April 2014 (hereinafter “Reference (b)’’); and Vice Chief of Naval Operations (VCNO) Ferguson memo of 2 June 2014 (hereinafter “Reference (c)’’). Additionally, ASN(RD&A) and the CNO will update the SECNAV on the implementation of these efforts every six months. A formally designated “Office of Primary Responsibility” is not necessary based on the responsiveness of the stakeholders tasked in References (a)-(c) and the actions already taken.

**Recommendation 2**: Once the office has been designated, direct this office to clarify, Navy-wide, in writing, each command’s distinct responsibilities to ensure proper internal controls, oversight, compliance with applicable guidance, and accountability over husbanding and port service processes.

**Navy Response**: Concur. References (a)-(c) resulted from an internal investigation into the Navy’s HSP procedures to identify high risk areas of concern. Together, these policy memoranda and associated actions create new HSP-specific internal controls, oversight, compliance, and accountability. Most of the resulting guidance and processes are on track to be implemented by the end of Fiscal Year 2014. Those actions not completed will be reported to the VCNO every 30 days until complete. NAVSUP and the Fleets have already developed an overarching Plan of Action and Milestone (POAM) to include all aspects of the HSP improvement efforts. The new HSP contract internal controls resulting from References (a)-(c) are listed, in brief, below.

- **Standard LOGREQs**: The Numbered Fleets have developed standard Logistics Requirements Requests (LOGREQs) based on ship class, region, force protection
APPENDIX 1: MANAGEMENT RESPONSE FROM THE ASSISTANT SECRETARY OF THE NAVY (RESEARCH, DEVELOPMENT, AND ACQUISITION)

NAVY RESPONSE TO The Naval Audit Service Draft Audit Report 2014-093 Navy Hubbing and Port Services Contracts (2 JUNE 2014)

conditions and other factors, including approximate quantity requirements. The standard LOGREQs are currently in-use in each area of responsibility (AOR) by ship class and mooring status, and have been loaded to the NAVSUP Logistics Support Services Repository (LogSSR) web-based tool. See Reference (c) at ¶ 1(a)(1); see also Reference (a).

- **Standard HSP review process.** The Fleet Commanders have developed a standard review process to validate requirements in advance of port visits with additional scrutiny paid to non-standard LOGREQs. This new review process is currently in-place. See Reference (c) at ¶ 1(a)(2).

- **Standard port visit checklists.** The Numbered Fleets and the U.S. Fleet Forces Command (USFF) have developed standard port visit checklists to properly monitor port services rendered and ensure proper receipt documentation. The checklists have been posted on LogSSR and are currently in use in all AORs. See Reference (c) at ¶ 1(a)(3).

- **HSP process guidance.** The Fleets have developed and promulgated complete guidance addressing all new HSP-related processes including mandatory standard LOGREQs, standard requirement review processes, standard checklists, and new standard HSP contract requirements. The guidance also defines port visit planning, cost reduction and oversight as “Commanders’ business.” See Reference (c) at ¶ 1(a)(4).

- **Standard off-ship payment processes.** The Fleets, the Assistant Secretary of the Navy (Financial Management & Comptroller) (ASN(FM&C)), and NAVSUP have coordinated to develop a pilot payment program to process all HSP vendor payments off-ship. The process will be Financial Improvement and Audit Readiness (FIAR) compliant. The Fleets provided a progress report to the VCNO on 11 July 2014, noting that further detailed analysis and integration testing is ongoing to determine the critical path and complex system interdependencies that must be resolved prior to a proof-of-principle trial. It is anticipated that this payment process will be developed by 12 September 2014. See Reference (c) at ¶ 1(a)(5).

- **Standard off-ship ordering.** NAVSUP has established a long term plan to transition all unpriced requirements and all orders valued over the micro-purchase threshold off-ship to the Fleet Logistic Centers (FLCs). This transition, however, will require extended planning and coordination and will not be implemented in the near term. NAVSUP has therefore developed an interim ordering process to mitigate immediate concerns about higher risk orders—all unpriced orders and all orders valued over the
micro-purchase threshold will require Fleet approval and the FLCs will make a “fair and reasonable” price determination before the order is placed. In coordination with the numbered Fleets, this new process commenced implementation on 1 August 2014 and is expected to be fully in-place by 30 August 2014. See Reference (c) at § 1(a)(6).

- **Elevate contract authority.** All acquisition plans for regional HSP contracts that will be awarded using other than multiple award indefinite delivery, indefinite quantity contracts will require the Navy’s Senior Procurement Executive’s approval. In addition, shipboard contracting authorities are being modified to remove previously delegated contracting authority and to provide limited ordering authority. The ordering authority will only allow for firm-fixed price line items from established contract vehicles already in place (i.e. fuel, provisions, etc.). NAVSUP will issue new policy that rescinds ship contracting authority by 15 August 2014. See Reference (c) at § 1(a)(7) and Reference (a).

- **Increase contract oversight.** The Fleets have coordinated with NAVSUP to determine the appropriate number of Contracting Officer Representatives (CORs) required for effective HSP contract performance monitoring. The Fleets will then assign and train the CORs, as required. The Fleets will also assign and train receiving officials to increase oversight for HSP services during port visits. USFF and the Commander, Pacific Fleet (PACFLT) have funded the establishment of CORs for each numbered Fleet. The COR hiring process is in progress and expected to be completed by the end of cycle year 2014. See Reference (c) at § 1(b)(1), (b)(2).

- **HSP-specific COR guidance.** NAVSUP is developing HSP-specific guidance for CORs assigned to HSP contracts. The new guidance was developed and promulgated to Fleet CORs for comment and has been posted to NAVSUP’s LogSSR Website. The HSP COR Guidance will be updated as new ordering procedures specified in the “To-Be” process are implemented. See Reference (c) at § 1(b)(3).

- **Document all services.** The Fleets are ensuring that all services received are properly documented with proof of receipt. The Fleets implemented this process on 12 May 2014. See Reference (c) at § 1(b)(4).

- **Review HSP contract strategies.** NAVSUP is conducting extensive market research and developing a plan to revise acquisition strategies at frequently visited ports, including reassessing the current HSP regional contract boundaries. The revised strategies will focus on maximizing competition and will include multiple award contracts, whenever possible. Revised acquisition strategies and anticipated award
APPENDIX 1: MANAGEMENT RESPONSE FROM THE ASSISTANT SECRETARY OF THE NAVY (RESEARCH, DEVELOPMENT, AND ACQUISITION)

NAVY RESPONSE TO The Naval Audit Service Draft Audit Report 2014-093 Navy Husbanding and Port Services Contracts (2 JUNE 2014)

- Timelines have been briefed to the Deputy Assistant Secretary of the Navy (Acquisition and Procurement) (DASN(AP)) based on market research and port surveys that have been conducted to-date. NAVSUP will continue to update ASN(RD&A) on a monthly basis as the acquisition matures. See Reference (c) at ¶ 1(c)(1).

- **Standard HSP contracts.** NAVSUP has developed standardized guidance for HSP contracts based on lessons learned that will be implemented in all new HSP contract actions, including follow-on contracts. The standardized contracts will be updated to include the newly developed acquisition strategies and Multiple Award Contract (MAC) ordering procedures. NAVSUP estimates award of the Sixth Fleet Regional HSP contract in early Calendar Year 2015 and the new Seventh Fleet Region Two HSP contract by mid-August 2015. Based on lessons learned from these contracts, all other regional HSP contracts will be awarded based on the standard approach as they require renewal over the next several years. See Reference (c) at ¶ 1(c)(2).

- **Update HSP-specific training.** The Fleets and NAVSUP have developed a POAM to train line officers, senior enlisted, and Supply Corps Officers regarding proper port visit planning, ethical dealings with contractors, and the importance of contract oversight. Pre-deployment training for all deploying units will be updated to include new HSP responsibilities and lessons learned from HSP fraud cases, as well as specific ethical considerations dealing with vendors. NAVSUP has revised the Supply Corps Officer Department Head (SODHC) training curriculum, with the initial delivery of the new curriculum presented to the current class on 21 July 2014. In addition, SODHC curriculum now requires all participants to complete the Defense Acquisition University (DAU) course CON-237 for Simplified Acquisition Procedures. See Reference (c) at ¶ 1(d)(1)-(3).

**Recommendation 3.** Re-allocate funding by means of internal functional transfer for husbanding and port services from U.S. Fleet Forces Command to the Numbered Fleets (e.g., U.S. 5th Fleet, U.S. 6th Fleet, etc.) in order to properly align fiduciary responsibility with ships’ operational control/requiring activity. (We recommend Assistant Secretary of the Navy for Financial Management and Comptroller in conjunction with the Chief of Naval Operations.)

**Navy Response:** Partially concur. The Department of the Navy has established policies and procedures governing funds receipt and distribution, as well as comptrollers’ establishment, organizational placement, and responsibilities. See SECNAVINST 7000.27B. The Office of Budget is the designated Echelon 1 activity responsible for governing comptroller organizations and allocating budget amounts to each Budget Submitting Office (BSO) comptroller organization. Paragraph 5(d) of SECNAVINST 7000.27B states that “Budget Submitting Office
APPENDIX 1: MANAGEMENT RESPONSE FROM THE ASSISTANT SECRETARY OF THE NAVY (RESEARCH, DEVELOPMENT, AND ACQUISITION)

NAVY RESPONSE TO The Naval Audit Service Draft Audit Report 2014-093 Navy Husbanding and Port Services Contracts (2 JUNE 2014)

(BSO) comptrollers shall evaluate the performance of comptrollers at all subordinate activities to which they provide funds. This includes ensuring that comptroller organizations are properly established and that comptroller personnel are trained to fulfill their responsibilities.”

The Commander, Fleet Forces Command (CFFC) and Commander, Pacific Fleet PACFLT are both Echelon 2 BSOs designated and documented as comptroller organizations and authorized to receive allocations and administrative funds control. The Numbered Fleets are neither designated nor delegated comptrollership as a BSO. The Numbered Fleets’ financial offices are not adequately staffed to handle the volume of funds and business processes required for HSP funding. Paragraph 5(k) of SECNAVINST 7000.27B states that adequate staffing requires realistic capability, and a sufficient number of capable, trained personnel. Type Commander (TYCOM) organizations are adequately staffed to do so.

In order to increase fiduciary responsibility and oversight, CFFC and PACFLT have established operating targets and spending caps for Numbered Fleets pursuant to NAVSO P-1000, § 073200 at ¶ 5. NAVSO P-1000 states that “the operating target grantor retains the responsibility for administrative control of the funds.” CFFC and PACFLT intend to manage port costs similar to the way they manage aviation flying hour costs and ship propulsion costs when ships and their crews are deployed to their individual areas of responsibility. CFFC and PACFLT will provide targeted funding ceilings to the Numbered Fleets to ensure cost discipline. The Numbered Fleets are then accountable back to their BSO for the execution of the funding allocated and executed for HSP costs.

ASN (FM&C) has also aligned enterprise-level internal controls to facilitate additional audit readiness objectives. The plan will be implemented in conjunction with the FIAR-compliant pilot program (discussed in response to Recommendation 4, below). See Reference (c) at 1(a)(1)-(a)(2).

Recommendation 4: Remove the husbanding and port services contract payment and certifying functions off the ships and realign these functions with the requiring activity. (We recommend Assistant Secretary of the Navy for Financial Management and Comptroller in conjunction with the Chief of Naval Operations.)

Navy Response: Concur. The Fleets, ASN(FM&C), and NAVSUP are working to develop a FIAR-compliant pilot program to remove all vendor-payment for HSP contract actions from ships, as indicated in the response to Recommendation 2. Deploying units representative of all ship and submarine types will be identified to conduct the pilot program. A progress update was provided to the VCNO on 11 July 2014, and noted that that further detailed analysis and integration testing is ongoing to determine the critical path and complex system interdependencies that must be resolved prior to a proof-of-concept trial. It is anticipated that a
NAVY RESPONSE TO The Naval Audit Service Draft Audit Report 2014-093 Navy
Husbanding and Port Services Contracts (2 JUNE 2014)

standard payment process will be developed by 12 September 2014. See Reference (c) at ¶ 1(a)(5)-(6).

Recommendation 5: Nominate the appropriate number of qualified COTRs on ships to support the CORs to verify the receipt and acceptance of husbanding contracts goods and services, as well as verify contractor performance. (We recommend U.S. Fleet Forces Command in conjunction with the Type Commanders.)

Navy Response: Concur. The Fleets will assign and train receiving officials to improve the oversight of HSP contract performance during port visits. Training for receipt inspectors is in place for USFF units as part of their pre-deployment training. That training includes specific guidance on receipt inspection for HSP provided services to include verification of volumetric quantities (e.g. potable water, CHT). The training also addresses the responsibility of the leadership team regarding dealings with HSP representatives. Training started in May 2014 and to date 23 Commander, Atlantic Fleet (LANTFLT) units scheduled for deployment have received training. All units will receive this training prior to deployment. Additionally, LANTFLT TYCOMs have been directed to designate qualified shipboard receipt inspectors in writing and such designation will include specific guidance related to receipt of HSP provided services. The minimum quantity of designated receipt inspectors for HSP services is the Supply Officer and any of the Supply Officer’s designated representatives. Typically this means the Supply Officer and assistants who serve as Duty Supply Officers in the Supply Officer’s absence. Additional inspectors may be designated based on the size of the ship and volume of transactions. Finally, subsequent discussions with NAVSUP and the Naval Audit Service resulted in a revised assessment that COTRs were not required, and that receipt inspectors are sufficient.

Recommendation 6: Establish controls to ensure appointed ship COTRs supporting husbanding service contracts receive the necessary training prior to deployment to perform their required duties and responsibilities. (We recommend U.S. Fleet Forces Command in conjunction with the Type Commanders.)

Navy Response: Concur. In addition to the above-noted COR and receiving official improvements, USFF and NAVSUP have completed and implemented COTR pre-deployment training and have promulgated supplemental guidance to accompany the COR handbook. See Reference (c) at ¶ 1(b)(3).

Recommendation 7: Restrict access to ship schedules to authorized individuals with a need to know, and assign and maintain accountability for their custody and use. (We recommend the U.S. 5th and 6th Fleets.)
APPENDIX 1: MANAGEMENT RESPONSE FROM THE ASSISTANT SECRETARY OF THE NAVY (RESEARCH, DEVELOPMENT, AND ACQUISITION)

FOR OFFICIAL USE ONLY

NAVY RESPONSE TO The Naval Audit Service Draft Audit Report 2014-093 Navy Hubbarding and Port Services Contracts (2 JUNE 2014)

Navy Response: Non-concur. Access to ship schedules is already limited to those with Secret Internet Protocol Router Network (SIPRNET) access which requires a security clearance. Further restricting access to ship schedules would limit the ability of multiple commands, staffs and organizations across the globe to coordinate complex operational, logistical, maintenance/repair and administrative requirements that must be executed in ports around the globe. However, NAVSUP and the Fleets are reviewing the feasibility and potential benefits of further limiting the number of personnel authorized to create and modify ship schedules.

Recommendation 8: Develop formal written guidance which outlines the ship scheduling process, access controls, and approval procedures. (We recommend the U.S. 5th and 6th Fleets.)

Navy Response: Concur. The Fleets have drafted formal written guidance outlining the ship scheduling process, access controls and approval procedures.

Recommendation 9: Nominate the appropriate number of qualified CORs to perform surveillance over hubbarding and port service contracts. (We recommend the U.S. 5th and 6th Fleets.)

Navy Response: Concur. The Fleets are coordinating with NAVSUP to determine the appropriate number of CORs required for effective HSP contract oversight and have begun appointing and training CORs. The Fleets estimate identifying permanent, full-time-equivalent employees to all COR positions by 1 October 2014. See Reference (c) at ¶ 1(b)(1).

Recommendation 10: Develop Quality Assurance Surveillance Plans (QASPs) to provide surveillance of all critical areas of contractor performance and compliance to the contract terms. (We recommend Naval Supply Systems Command in conjunction with the U.S. 5th and 6th Fleets CORs.)

Navy Response: Concur. NAVSUP will enhance the QASPs in all future HSP contracts to include many of the elements from the ship port visit checklist to provide a framework for HSP performance oversight. The checklist elements will be included at the order execution level as well as the overall contract level. In addition, while not formal QASPs, many of the outlined tasks already underway increase quality assurance requirements for HSP contracts. See generally Reference (c) (standard LOGREQs, standard requirements review process, standard checklists, new process guidance, removing vendor-payment off-ship, removing higher risk ordering off-ship, elevating contracting authority for higher risk contract types, increasing contract oversight and service oversight by training and assigning more CORs and Receipt Inspectors, developing additional training for positions that deal with HSP contracts and contractors, requiring thorough documentation of all HSP services received and implementing new HSP contracting strategies based on new policies and lessons learned). These QASP

7
APPENDIX 1: MANAGEMENT RESPONSE FROM THE ASSISTANT SECRETARY OF THE NAVY (RESEARCH, DEVELOPMENT, AND ACQUISITION)

FOR OFFICIAL USE ONLY

NAVY RESPONSE TO The Naval Audit Service Draft Audit Report 2014-093 Navy Husbonding and Port Services Contracts (2 JUNE 2014)

enhancements are being worked into the current solicitations for the Sixth and Seventh Fleet Region Two HSP contracts.

Recommendation 11: Ratify unauthorized commitments made by personnel for items ordered not within the scope of the contract or without proper authority. (We recommend Naval Supply Systems Command.)

Navy Response: Concur. NAVSUP will work with TYCOMs to evaluate line items that were awarded without a price fixed by the Supply Officer. All unauthorized commitments will be reviewed and ratified, if appropriate, in accordance with the Federal Acquisition Regulation (FAR), the Defense Federal Acquisition Regulation Supplement (DFARS), the Navy Marine Corps Acquisition Regulation Supplement (NMCARS) and NAVSUP Instruction 4200.82 (Series).

Recommendation 12: Review N68171-12-D-0001 and eliminate the contract language creating the prohibited cost-plus-percentage-of-cost system, which does not incentivize the contractor to control cost. (We recommend Naval Supply Systems Command.)

Navy Response: Concur. NAVSUP FLC Sigonella removed all unpriced line items from N68171-12-D-0001 on 1 June 2014. In addition, NAVSUP implemented the new interim ordering process on 1 August 2014 in the Sixth Fleet AOR, ensuring unpriced items are definitized by NAVSUP Fleet Logistics Center (FLC) Sigonella prior to being ordered by ships. The interim process requires ships to forward all LOGREQs to the Numbered Fleets for review. The Numbered Fleets will forward vetted requirements to the regional FLC. The FLC will review the requirement to determine whether it is within the scope of the current contract. All out-of-scope requests will be returned to the ship to be processed as new procurement actions. The FLC will negotiate a price with the HSP vendor for all in-scope requests and make a fair and reasonable pricing determination. The ship will then place a definitized order with the HSP. In this way, only priced items will be provided to ships, thus eliminating all unpriced line items and all cost plus percentage of cost pricing.

Recommendation 13: Eliminate miscellaneous contract line item numbers in contracts N68171-07-D-0007 and N68171-12-D-0001 and clearly define the specific goods and services required within the scope of the contract. (We recommend Naval Supply Systems Command.)

Navy Response: Concur. N68171-07-D-0007 has been replaced with the new, standard HSP regional contract that does not include unpriced line items and clearly defines the requirements. As indicated in Recommendation 12, NAVSUP is working with the Fleets to eliminate unpriced line items on all HSP contracts by establishing an interim ordering procedure that definitizes all requirements prior to ordering.
APPENDIX 1: MANAGEMENT RESPONSE FROM THE ASSISTANT SECRETARY OF THE NAVY (RESEARCH, DEVELOPMENT, AND ACQUISITION)

FOR OFFICIAL USE ONLY

NAVY RESPONSE TO The Naval Audit Service Draft Audit Report 2014-093 Navy Husbanding and Port Services Contracts (2 JUNE 2014)

Recommendation 14: Rescind contracting authority from the Type Commanders and ordering authority for husbanding services, and utilize the appropriate Fleet Logistics Center to place orders for ships requiring husbanding services. (We recommend Naval Supply Systems Command.)

Navy Response: Concur. NAVSUP will issue a policy notification that rescinds contracting authority from TYCOMs and ships upon full implementation of the planned alignment of contract functions at the FLCs and off-ship bill payment. In the meantime, ships must retain ordering authority for standard, firm-fixed priced items such as fuel, provisions, ship's store, and other defintitized HSP requirements. As noted in the responses to Recommendations 2 and 12, NAVSUP is working to establish an interim ordering process that defintitizes requirements prior to ordering and provides improved oversight and requirement approval by the Numbered Fleets. Although NAVSUP and the Fleets are working to develop a the permanent, or “To-Be” solution to remove HSP orders and bill-payment from ships, the interim ordering process is in-place as of 1 August 2014.

Recommendation 15: Modify husbanding and port services contracts to require that the contractor submit invoices directly to the certifying organization for certification and utilization of the Prompt Payment Act. (We recommend Naval Supply Systems Command.)

Navy Response: Concur. All HSP contracts are being standardized based on new policy and lessons learned and all vendor-payment functions will be transitioned off-ship.

Recommendation 16: Establish controls and provide oversight to ensure all husbanding and port services contract documentation is maintained in accordance with the Federal Acquisition Regulation. (We recommend Naval Supply Systems Command.)

Navy Response: Concur. NAVSUP contracting officers will review COR files in accordance with the FAR, the DFARS, the NMCARS and current NAVSUP COR instructions. NAVSUP is also reviewing FLC-issued HSP task orders in accordance with NAVSUP Instruction 4200.82 (Series).

Recommendation 17: Establish and define intent of LogSSR and formalize its official use, to include implementing controls to ensure data in the system is suitably reliable for its intended purpose. (We recommend Naval Supply Systems Command.)

Navy Response: Concur. LogSSR will continue to be used to provide estimated costs in advance of port visits and to serve as a repository for archived port visit data and reference materials (Contracts, Fleet Guidance Messages, COR Handbook, HSP Ordering Guide, port visit checklists, and standard LOGREQs). Once Fleet CORs are in place, data will be entered by
NAVY RESPONSE TO The Naval Audit Service Draft Audit Report 2014-093 Navy
Husbanding and Port Services Contracts (2 JUNE 2014)

CORs based on actual expenditures from payment documents. Fleet CORs are also part of the
requirements review process and will ensure all port visits are logged in the system.

Recommendation 18: Conduct a full review of the Patrol Craft Squadron 1 Government
Purchase Card Program to ensure compliance with Naval Supply Systems Command and Type
Commander guidance. (We recommend U.S. Fleet Forces Command in conjunction with
Commander, Naval Surface Force U.S. Atlantic Fleet and Naval Supply Systems Command.)

Navy Response: Concur. USFF, through its Commander, Naval Surface Forces Atlantic
(COMNAVSURFLANT) organization, is supporting a GPC Program review in accordance with
NAVSUP Instruction 4200.82 (Series). An individual audit of the Patrol Craft Squadron 1
GCPC began 27 July 2014 and is currently underway.

Recommendation 19: Determine amount of and recoup improper markups paid to Incncape
Shipping Services, and provide oversight to ensure the Navy does not pay additional fees in the
future. (We recommend the Assistant Secretary of the Navy for Financial Management and
Comptroller in conjunction with U.S. Fleet Forces Command and Naval Supply Systems
Command.)

Navy Response: Concur. An administrative agreement between the Department of the Navy
(DON) and Incncape Shipping Services, dated 10 January 2014, addresses improper markups
paid to Incncape and recoupment.
Appendix 2:

Management Response from Commander, U.S. Fleet Forces Command

From: Commander, U.S. Fleet Forces Command
To: Assistant Auditor General for Research, Development and Acquisition Audits, Naval Audit Service

Subj: RESPONSE TO NAVAL AUDIT SERVICE DRAFT AUDIT REPORT NAVY HUSBANDING AND PORT SERVICES CONTRACTS

Ref: (a) NAVAUDSVC memo 7510 of 19 Dec 13
(b) SECNAVINST 7510.7P

Enclosure: (1) Response to Naval Audit Service Draft Audit Report Navy Husbanding and Port Services Contracts

1. In response to findings and recommendations under reference (a), enclosure (1) is provided.

2. Responses submitted per reference (b).

3. Please direct any questions to the U.S. Fleet Forces Audit Liaison, [reddacted] at DSN: [reddacted] or COM [reddacted]

William K. Corynth

[Signature]

[Redacted]
RESPONSE TO NAVAL AUDIT SERVICE DRAFT AUDIT REPORT NAVY HUSBANDING AND PORT SERVICES CONTRACTS (N2014-093) 2 JUNE 2014

Recommendation 5
U.S. Fleet Forces Command in conjunction with the Type Commanders nominate the appropriate number of qualified Contracting Officer Technical Representatives (COTR) on ships to support the Contracting Officer’s Representative (CORs) to verify the receipt and acceptance of husbanding contracts goods and services, as well as verify contractor performance.

Response: U.S. Fleet Forces Command, Commander, Naval Air Force, Atlantic, Commander, Submarine Force, Atlantic, and Commander, Naval Surface Forces, Atlantic concur with this recommendation. U.S. Fleet Forces Command is working with NAVSUP to determine the appropriate number of personnel to be assigned by their respective units as receipt inspectors on ships and submarines by 11 July 2014.

Recommendation 6
U.S. Fleet Forces Command in conjunction with the Type Commanders establish controls to ensure appointed ship COTRs supporting husbanding service contracts receive the necessary training prior to deployment to perform their required duties and responsibilities.

Response: U.S. Fleet Forces Command, Commander, Naval Air Force, Atlantic, Commander, Submarine Force, Atlantic, and Commander, Naval Surface Forces, Atlantic concur with this recommendation. U.S. Fleet Forces Command is working with NAVSUP to properly train personnel assigned by their respective units as receipt inspectors on ships and submarines by 11 July 2014.

Recommendation 18
U.S. Fleet Forces Command in conjunction with Commander, Naval Surface Force U.S. Atlantic Fleet and Naval Supply Systems Command conduct a full review of the Patrol Craft Squadron 1 Government Purchase Card Program to ensure compliance with Naval Supply Systems Command and Type Commander guidance.

Response: U.S. Fleet Forces Command, Commander, Naval Surface Force U.S. Atlantic Fleet and Naval Supply Systems Command concur with this recommendation. Commander, Naval Surface Force U.S. Atlantic Fleet will conduct a complete on site review of the Patrol Craft Squadron 1 Government Purchase Card Program, with a targeted completion date of 1 August 2014.

Enclosure (1)
Appendix 3:
Management Response from Commander, U.S. Naval Forces Central Command

DEPARTMENT OF THE NAVY
COMMANDER, U.S. NAVAL FORCES CENTRAL COMMAND
PSC 901 BOX 01, FPO AE 09085-0001

4200
Ser 00/285
29 JUN 2014

From: Commander, U.S. Naval Forces Central Command
To: Naval Audit Service, Assistant Auditor General for Research, Development and Acquisition Audits
(Attn: Arthur L. Scott, Jr.)

Subj: RESPONSE TO NAVAL AUDIT SERVICE DRAFT AUDIT REPORT NAVY HUSBANDING AND PORT SERVICES CONTRACTS (N2014-093)

Ref: (a) NAVAUDSCVC memo 7510 2014-093 of 2 Jun 14

1. In response to findings and recommendations of reference (a), Commander, U.S. Naval Forces Central Command (USNAVCENT) and U.S. FIFTH Fleet (USFIFTHFLT) provides the following responses:

   a. Recommendation 7: Restrict access to ship schedules to authorized individuals with a need to know, and assign and maintain accountability for their custody and use.

      Response: USFIFTHFLT does not concur with creating and maintaining a "by name" access list for ship schedules. Schedules are located on a Secret Internet Protocol Router network, which is restricted to those with at least a minimum a Secret security clearance and who have been granted access by an appropriate command or authority. The recommendation should read, "Maintain ships’ schedules at the appropriate level of classification on certified classified systems; ensure appropriate controls are in place to verify personnel with the access to classified systems have the appropriate clearance and need to know." USFIFTHFLT considers in-place processes to be adequate to ensure an acceptable level of risk. The loss of situational awareness and manpower cost of implementing individual by individual controls outweighs any potential benefits gained by restricting access further.

   b. Recommendation 8: Develop formal written guidance which outlines the ship scheduling process, access controls, and approval procedures.

      Response: USFIFTHFLT concurs with this recommendation. Operational Order (OPORD 1000) has been updated to provide guidance on the ship scheduling process, access control, and approval procedures.
Subj: RESPONSE TO NAVAL AUDIT SERVICE DRAFT AUDIT REPORT NAVY HUSBANDING AND PORT SERVICES CONTRACTS (N2014-093)

c. Recommendation 2: Nominate the appropriate number of qualified Contracting Officer Representatives (CORs) to perform surveillance over husbanding and port services contracts.

Response: USFIFTHFLT concurs with this recommendation. One officer and one senior chief petty officer assigned to the staff have been trained and appointed as collateral-duty CORs as an interim solution pending the hiring of two full-time equivalent civilians. USFIFTHFLT, in coordination with U.S. Fleet Forces Command and Navy Supply Systems Command, will identify the appropriate number of CORs by 11 July 2014. Initially, two civilian GS-13 COR positions have been funded and are currently being advertised for potential applicants. These two positions are anticipated to be hired, trained, and in place to conduct the Husbanding Service Provider oversight mission by 31 October 2014.

d. Recommendation 10: Develop Quality Assurance Surveillance Plans (QASPs) to provide surveillance of all critical areas of contractor performance and compliance to the contract terms.

Response: USFIFTHFLT concurs with this recommendation. The COR has been tasked to develop and implement QASPs for all critical areas of contractor performance and compliance with the contract terms. QASPs are expected to be in place by 1 December 2014.

2. We identified no information in the draft report that we deemed to be exempt from release under the Freedom of Information Act.

3. We have completed the supporting recommendations and consider this report to be final.

J. W. MILLER
Appendix 4:

Management Response from Commander, U.S. Sixth Fleet

DEPARTMENT OF THE NAVY
COMMANDEER
UNITED STATES SIXTH FLEET
PSC 609 BOX 70
PO AE 90025-5070

7510
Ser N00/383
02 Jul 14

From: Commander, U.S. SIXTH Fleet
To: Naval Audit Service

Subj: RESPONSE TO NAVY HUSBANDING AND PORT SERVICES CONTRACTS (DRAFT AUDIT REPORT 2014-093)

Ref: (a) Navy Husbanding and Port Services Contracts (Draft Audit Report 2014-093) of 02 Jun 14

Encl: (1) C6F Initial Response to Draft Audit Report 2014-093 of 30 May 14
(2) Supply Officer Port Visit Checklist

1. This letter provides COMSIXTHFLT responses to recommendations for process controls and improvement in reference (a). COMSIXTHFLT provided enclosure (1) to the Naval Audit Service in response to the formal out brief. Addressing the four recommendations to SIXTH Fleet:

   a. Recommendation 7. Restrict access to ship schedules to authorized individuals with a need to know, and assign and maintain accountability for their custody and use.

      (1) COMSIXTHFLT Response: Non-concur.

      (a) Access to ship schedules is already limited to those with SIPRNET access, and thus a security clearance to view. COMSIXTHFLT considers in-place processes adequate to ensure an acceptable level of risk. The cost of implementing further controls outweighs benefits gained by restricting access to personnel with an identified "need to know".

      (b) Dramatically restricting access to ship schedules will limit the ability of multiple commands, staffs, and organizations across the globe to coordinate complex operational, logistical, maintenance/repair, and administrative requirements that must be executed in ports across the globe.

      (c) COMSIXTHFLT concurs with limiting the number of persons that have an ability to write and/or modify scheduling requirements and has ensured that program properties limit the ability to authorized persons only.
APPENDIX 4: MANAGEMENT RESPONSE FROM COMMANDER, U.S. SIXTH FLEET

Subj: RESPONSE TO NAVY HUSBANDING AND PORT SERVICES CONTRACTS (DRAFT AUDIT REPORT 2014-093)

b. Recommendation 8. Develop formal written guidance which outlines the ship scheduling process, access controls, and approval procedures.

(1) COMSIXTHFLT Response: Concur. CNE/CNA/C6FINST 3128.1, Port Visit Planning and Prioritization, was signed on 30 May 2014.

c. Recommendation 9. Nominate the appropriate number of qualified CORs to perform surveillance over husbanding and port service contracts.

(1) COMSIXTHFLT Response: Concur. Four officers assigned to the staff have been trained and appointed as collateral-duty CORs as an interim solution pending the hiring of two full-time equivalent civilians. The new personnel have been selected and are awaiting notification by the Human Resources Office. They are anticipated to be full-time equivalent members of the staff prior to the commencement of FY15.

d. Recommendation 10. Develop Quality Assurance Surveillance Plans to provide surveillance of all critical areas of contractor performance and compliance to the contract terms.

(1) COMSIXTHFLT Response: Concur. The development and conduct of Quality Assurance Surveillance Plans (QASPs) was included in the Position Description for the two civilian hires that are anticipated to be fully functioning members of the staff prior to commencement of FY15. It has also been directed that all ships utilize enclosure (2), which is a key element of the QASP. Ships are required to forward this document to the COMSIXTHFLT COR upon completion of a port visit.

2. Additional feedback regarding realignment of husbanding and port services:

a. Recommendation 3. Transfer funding for husbanding and port services from U.S. Fleet Forces Command to the Numbered Fleets (e.g., U.S. 5th Fleet, 6th Fleet, etc.) in order to properly align fiduciary responsibility with ships' operational control/requiring activity.

(1) COMSIXTHFLT Response: Non-concur.

(a) This recommendation does not include the transfer of manpower and systems required to fulfill these functions, and the staff does not have the capacity to absorb these extra requirements. C6F is not currently a Budget Support Office (BSO). At a minimum, a cost-benefit analysis should be conducted to determine the viability of this recommendation before implementation.

(b) Operational control is just one factor in the alignment of fiduciary responsibility. The HSP contracting process itself, the
Subj: RESPONSE TO NAVY HUSBANDING AND PORT SERVICES CONTRACTS (DRAFT AUDIT REPORT 2014-093)

execution of shipboard administrative functions like repairs, maintenance, logistics and personnel transfers, and the shipboard execution of the visit itself are the other areas in which abuses can happen and for which the operational commander has little or no oversight capacity.

3. All actions are completed that support recommendations with which I concur and I consider this report to be final.

P. S. DAVIDSON

Distribution:
SECNAV
ASN (FM&C)
CNO
Commander, U.S. Fleet Forces Command (NDIG)/Type Commanders
Commander, Naval Supply Systems Command
Commander, U.S. Naval Forces Central Command/U.S. FIFTH Fleet

Copy to:
OGC
ASSTSECNAV RDA
DASN A&P
VCNO
NCIS Code 00I
AIO