

October 28, 2005



# Acquisition

Contract Surveillance for Service  
Contracts  
(D-2006-010)

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### **Acronyms**

AAA	Army Audit Agency
AFAA	Air Force Audit Agency
COR	Contracting Officer's Representative
DCAA	Defense Contract Audit Agency
DCMA	Defense Contract Management Agency
DFARS	Defense Federal Acquisition Regulation Supplement
DISA	Defense Information Systems Agency
DoD IG	Department of Defense Inspector General
FAR	Federal Acquisition Regulation
GAO	Government Accountability Office
HNC	U.S. Army Corps of Engineers, Engineering and Support Center, Huntsville
MCP	Management Control Program
NAS	Naval Audit Service
QASP	Quality Assurance Surveillance Plan
TPOC	Technical Point of Contact



INSPECTOR GENERAL  
DEPARTMENT OF DEFENSE  
400 ARMY NAVY DRIVE  
ARLINGTON, VIRGINIA 22202-4704

October 28, 2005

MEMORANDUM FOR DISTRIBUTION

SUBJECT: Report on Audit of Contract Surveillance for Service Contracts (Report No. D-2006-010)

We are providing this report for review and comment. Acquisition Executives for the Army did not respond to the draft report; however, we considered comments from the Under Secretary of Defense for Acquisition, Technology, and Logistics; the Deputy Assistant Secretary of the Navy (Acquisition Management); the Assistant Secretary of the Air Force (Financial Management and Comptroller); the Director, Defense Contract Audit Agency; and the Director for Procurement and Logistics, Defense Information Technology Contracting Organization when preparing the final report.

DoD Directive 7650.3 requires that all recommendations be resolved promptly. As a result of management comments, we added Recommendations 3. and 4. to the Commander, U.S. Army Corps of Engineers, Engineering and Support Center, Huntsville, and Chief, Defense Information Technology Contracting Organization, Scott Air Force Base. Therefore, we request that those organizations provide comments on Recommendations 3. and 4. by November 28, 2005. The Under Secretary of Defense for Acquisition, Technology, and Logistics comments were partially responsive. We request additional comments on Recommendations 1.a. and 1.e. by November 28, 2005. In addition, we request that that Army Acquisition Executive respond to Recommendations 2.a. and 2.b. by November 28, 2005. If possible, please send management comments in electronic format (Adobe Acrobat file only) to [Audcm@dodig.osd.mil](mailto:Audcm@dodig.osd.mil). Copies of the management comments must contain the actual signature of the authorizing official. We cannot accept the / Signed / symbol in place of the actual signature. If you arrange to send classified comments electronically, they must be sent over the SECRET Internet Protocol Router Network (SIPRNET).

We appreciate the courtesies extended to the staff. Questions should be directed to Terry L. McKinney at (703) 604-9288 (DSN 664-9288), [terry.mckinney@dodig.mil](mailto:terry.mckinney@dodig.mil), or Mr. Timothy E. Moore at (703) 604-9282 (DSN 664-9282), [timothy.moore@dodig.mil](mailto:timothy.moore@dodig.mil). See Appendix E for the report distribution. The team members are listed inside the back cover.

By direction of the Deputy Inspector General for Auditing:

Richard B. Jolliffe  
Director

Contract Management Directorate

## Department of Defense Office of Inspector General

Report No. D-2006-010

October 28, 2005

(Project No. D2004-D000CF-0140.000)

### Contract Surveillance for Service Contracts

#### Executive Summary

**Who Should Read This Report and Why?** DoD contracting officials, program managers, and military personnel involved in the administration and oversight of contractor performance and costs on service contracts should read this report. This report discusses problems identified in contract oversight for service contracts that may lead to DoD accepting substandard performance by contractors, paying for services and items not received, and awarding contracts to vendors with a history of substandard performance.

**Background.** Office of Federal Procurement Policy Letter No. 93-1, "Management Oversight of Service Contracting," May 18, 1994, encourages Inspectors General to conduct vulnerability assessments of service contracting. This report represents the sixth DoD audit of service contracts, but is the first to look exclusively at surveillance of service contracts, an area identified as problematic in previous reports. This audit was initiated because of the increasing significance of contracts for services in DoD. From FY 1993 through FY 2004, DoD procurement of services increased from \$61.9 billion to \$127.4 billion, an increase of 106 percent. In FY 2004, DoD spent \$230.7 billion purchasing goods and services costing over \$25,000. Of the \$230.7 billion, \$127.4 billion (55 percent) were for services. This report evaluates whether DoD provided sufficient oversight for service contracts to ensure that contractors performed in accordance with contract specifications.

**Results.** For the 23 judgmentally selected service contracts reviewed, contracting officers usually appointed representatives to monitor contractors' performance. However, contracting officials and requiring activity personnel did not provide sufficient contract oversight for service contracts to ensure that contractors were performing in accordance with contract specifications. Of 23 contracts reviewed, 3 contained required quality assurance surveillance plans, 14 had no surveillance plans, and 6 had inadequate surveillance plans. Non-Defense Contract Audit Agency (DCAA) officials approved vouchers for 13 contracts. In addition, contracting and program offices performed cursory reviews of contractor performance against costs for 12 contracts, did not adequately record past performance history for 10 contracts, and did not use performance-based contracting methods for 18 contracts. Overall, DoD could not be assured that it received the best value when contracting for services.

The Under Secretary of Defense for Acquisition, Technology, and Logistics needs to emphasize to senior contracting officials and program managers the requirement to develop quality assurance surveillance plans for service contracts and ensure that program office officials are sufficiently trained on the preparation of quality assurance surveillance plans that emphasize the use of metrics. The Under Secretary also needs to revise current policies and procedures to clearly define the roles and responsibilities of contract administration personnel; ensure that contract and program office personnel

coordinate with the DCAA office that has the responsibility for voucher review for all cost-reimbursement and time-and-materials service contracts; and include in all contracts Section G, "Contract Administration," the roles and responsibilities of contract administration personnel. Acquisition Executives for the Army, the Navy, the Air Force, and the Director, Defense Information Systems Agency, need to provide quality assurance surveillance plan training to program office officials. The Commander, U.S. Army Corps of Engineers, Engineering and Support Center, Huntsville, and the Chief, Defense Information Technology Contracting Organization, Scott Air Force Base, should consider using DCAA services for prepayment voucher approvals, confirmation of rates, and review of contractor systems to ensure that off-site accounting for costs is proper. See the Findings section of the report for the detailed recommendations.

We also reviewed the management control program as it related to contract surveillance for service contracts. We identified a material management control weakness for the Military Departments and the Defense Information Systems Agency. Although the Government Accountability Office has designated DoD contract management a "high-risk" area, Military Departments and the Defense Information Systems Agency did not have management controls in place to ensure adequate surveillance was performed on contracts, particularly cost-reimbursement and time-and-materials contracts.

**Management Comments and Audit Response.** The Acting Director of Defense Procurement and Acquisition Policy, answering for the Office of the Under Secretary of Defense for Acquisition, Technology, and Logistics, partially concurred with our recommendation that senior officials and program managers coordinate with DCAA to ensure the surveillance of contract costs. The Acting Director stated that contracting personnel should contact DCAA when assistance is required, rather than requiring upfront coordination on all contracts. The Acting Director also partially concurred to coordinate with contract and program personnel and DCAA to avoid duplication of voucher reviews for all cost-reimbursement and time-and-materials service contracts. The Acting Director stated that his office would issue guidance that defines the roles and responsibilities of contract administration personnel, program office personnel, and DCAA. The Acting Director also disagreed with listing contract administration personnel roles and responsibilities within contract Section G, "Contract Administration." The Acting Director stated that DoD guidance will be issued that defines contract administration personnel roles and responsibilities; therefore, listing roles and responsibilities in every contract is duplicative and inefficient. However, the Acting Director stated that deviations from DoD guidance would require the defining of roles and responsibilities within Section G of the contract.

Though the Acting Director of Defense Procurement and Acquisition Policy stated that upfront coordination of all contracts is not necessary, all parties should conduct upfront coordination to preclude risks of contractor noncompliance. Listing surveillance personnel roles and responsibilities within contract Section G of the contract ensures that contracting officer and oversight personnel are aware of their responsibilities, and the responsibilities of all personnel and agencies involved with each contract. We request that the Office of the Under Secretary of Defense for Acquisition, Technology, and Logistics reconsider his position and provide comments on the final report by November 28, 2005. A discussion of management comments is in the Finding section of the report and the complete text is in the Management Comments section.

No management comments were received from the Army. We provided a copy of the draft report on July 25, 2005. We request that the Army Acquisition Executive submit comments to the final report by November 28, 2005.

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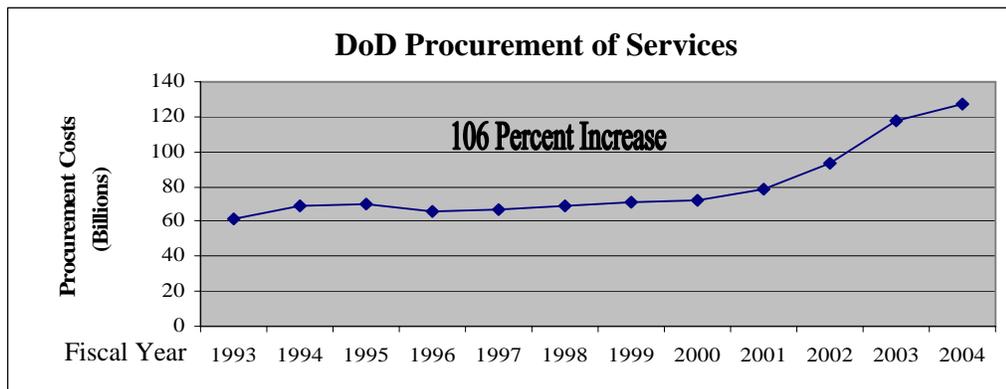
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## Background

Office of Federal Procurement Policy Letter No. 93-1, “Management Oversight of Service Contracting,” May 18, 1994, encourages Inspectors General to conduct vulnerability assessments of service contracting. This report represents the sixth DoD audit of service contracts, but is the first to look exclusively at surveillance of service contracts, an area identified as problematic in previous reports. Service contracts continue to grow in both dollar amount and significance for DoD readiness.

**Service Contract Trends.** We judgmentally selected 23 contracts,<sup>1</sup> valued at \$670.4 million, awarded in FY 2003 for this audit. Washington Headquarters Services records indicate that from FY 1993 through FY 2004, the cost of DoD procurement of goods and services on contracts with a value greater than \$25,000 increased from \$123.7 billion to \$230.7 billion, an increase of 86 percent. During this same time period, the procurement cost of services alone increased from \$61.9 billion to \$127.4 billion, an increase of 106 percent. In FY 2004, 55 percent of DoD spending for goods and services was spent on service contracts. The following figure illustrates the annual growth of DoD procurement of services from FY 1993 through FY 2004.



**Surveillance Overview.** Surveillance of contract performance and cost is an element of contract administration. Surveillance should start upon the award of the contract and continue until contract completion to ensure contractors perform required services in compliance with contractual agreements. Methods used for DoD contractor surveillance may vary between Military Departments, Defense agencies, and Defense contract offices. By DoD directive and regulation, the Defense Contract Audit Agency (DCAA) is the contracting officer’s authorized representative for analyzing contractor’s cost and accounting systems, and provisionally approving interim vouchers. In addition, the contracting officer has the authority to designate personnel to assist with the monitoring of other aspects of contractor performance including delegation of contract administration responsibilities to the Defense Contract Management Agency (DCMA) and designation of a contracting officer’s representative (COR).

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<sup>1</sup> The term contract includes contract actions, task orders, and modifications.

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**Contracting Officer’s Representatives.** Defense Federal Acquisition Regulation Supplement (DFARS) 201.6, “Contracting Authority and Responsibilities,” October 25, 2002, states that contracting officers handle the award and administration of contracts. To assist in administrative duties, contracting officers are authorized to designate qualified personnel as CORs. The designated CORs must act as the “eyes and ears” for the contracting officer. COR responsibilities may include assisting the contracting officer with technical monitoring or contract administration. CORs must be properly trained, designated in writing, and maintain contract surveillance files. Designation letters signed by the contracting officer should specify the extent and limitations of the COR authority to act on behalf of the contracting officer.

**Defense Contract Audit Agency.** Under authority of Department of Defense Directive 5105.36, “Defense Contract Audit Agency,” February 28, 2002, DCAA provides DoD contracting components with contract audits and financial advisory services in connection with the negotiation, administration, and closeout of contracts and subcontracts. DFARS 242.803 “Disallowing Costs After Incurrence,” November 9, 1999, states that the contract auditor has the authority and responsibility for audit examination and approval for payment of vouchers. DCAA, as the contract auditor, has the authority to:

- receive vouchers from contractors,
- review and provisionally approve interim vouchers<sup>2</sup> and submit them to a disbursing office for payment (subject to final audit),
- authorize contractors for direct submission of interim vouchers to the disbursing office for contractors with approved billing systems,
- audit annual incurred cost submissions and final vouchers prior to contract close out, and
- issue Notice of Contract Costs Suspended and/or Disapproved (DCAA Form 1) to deduct costs from vouchers where DCAA believes the contractor has failed to comply with the terms of the contract.

DCAA operates under the direction and control of the Under Secretary of Defense (Comptroller)/Chief Financial Officer and consists of approximately 4,000 employees located at more than 300 audit field offices throughout the United States and overseas. See Appendix C for detailed information related to DCAA audits.

**Defense Contract Management Agency.** DCMA performs contract administration services for DoD. Specifically, DCMA acts as the DoD contract manager, responsible for ensuring Federal acquisition programs, supplies, and services are delivered on time, within cost, and meet performance requirements. According to Federal Acquisition Regulation (FAR) Part 42.2 “Contract Administration Services,” contracting officers have the authority to delegate contract administration services to DCMA. The extent of DCMA contract

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<sup>2</sup> Vouchers are paid on an interim basis until final payment of the contract is made.

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administration responsibilities is dependent on whether the contracting officer's delegation to DCMA imposed any limitations of responsibility. Barring any limitations, DCMA is responsible for all contract administration functions listed in FAR Part 42.3 "Contract Administration Office Functions." DCMA was established on March 27, 2000. DCMA operates under authority and direction of the Under Secretary of Defense for Acquisition, Technology, and Logistics. DCMA employs more than 12,000 people located at 70 contract offices. The 70 contract offices conduct contract management for more than 900 locations worldwide.

## **Objectives**

Our overall audit objective was to evaluate whether the Government provided sufficient contract oversight for service contracts to ensure that contractors performed in accordance with the contract. Specifically, we examined whether personnel were appointed to monitor contractors' performance, contractors' work was adequately monitored, contractors performed in accordance with contractual obligations, and contractor performance was properly documented for future use. We also evaluated the management control programs as they applied to the overall objective. See Appendix A for a discussion of the scope and methodology and our review of the management control programs. See Appendix B for prior coverage related to the audit objectives.

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## Surveillance of Contractor Performance and Costs on Service Contracts

Contracting officials and requiring activity personnel did not provide sufficient oversight for service contracts to ensure that contractors were performing in accordance with contract specifications. Specifically,

- on 20 of 23 contracts, or 87 percent,<sup>3</sup> requiring activity personnel did not develop and implement adequate surveillance plans;
- on 12 of 23 contracts, or 52 percent,<sup>3</sup> responsible officials performed insufficient reviews of contractor work billed on vouchers to ensure the supplies and services conform to contract requirements,
- on 13 of 23 contracts, or 57 percent,<sup>3</sup> non-DCAA officials were approving vouchers for provisional payments.
- on 10 of 23 contracts, or 43 percent,<sup>3</sup> requiring activity personnel did not document contractor past performance for future use in determining best value for contractor selections.

In addition, contracting officials used performance-based contracting methods in only 5 of the 23 contracts reviewed, or 22 percent.<sup>3</sup>

This occurred because contracting officials did not prepare quality assurance surveillance plans (QASP) as required by the FAR when contracting for services, and no clear procedures existed that defined the roles and responsibilities of contracting personnel for the review and certification of contractor vouchers. As a result, DoD may be accepting substandard performance by contractors, may be paying for services and items not received, and may be awarding contracts to vendors with a history of substandard performance. Overall, DoD was not assured that contractors complied with the terms of their contracts, or that DoD received the best value when contracting for services.

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<sup>3</sup> Judgment sample percentage does not generalize to universe.

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## Criteria

**Surveillance Requirements.** FAR Subpart 46.103, “Contracting Office Responsibilities,” provides that contracting offices are responsible for receiving a QASP from the requesting activity when contracting for services. FAR Subpart 46.103 states:

contracting offices are responsible for receiving from the activity responsible for technical requirements any specifications for inspection, testing, and other contract quality requirements essential to ensure the integrity of the supplies or services (the activity responsible for technical requirements is responsible for prescribing contract quality requirements, such as inspection and testing requirements or, for service contracts, a quality assurance surveillance plan).

According to FAR Part 46.4, “Government Contract Quality Assurance,” a QASP should be prepared in conjunction with preparation of the statement of work and should specify all work requiring surveillance and the method of surveillance. FAR Part 46.4 states:

Government contract quality assurance shall be performed at such times (including any stage of manufacture or performance of services) and places (including subcontractors’ plants) as may be necessary to determine that the supplies or services conform to contract requirements. Quality assurance surveillance plans should be prepared in conjunction with the preparation of the statement of work. The plans should specify – (1) All work requiring surveillance; and (2) The method of surveillance.

FAR Part 37.6, “Performance-Based Contracting,” addresses QASP requirements for performance-based service contracts. It requires agencies to develop QASPs when acquiring services that contain measurable inspection and acceptance criteria corresponding to the performance standards contained in the statement of work. The QASPs are to focus on the level of performance required by the statement of work, rather than the methodology used by the contractor to achieve that level of performance. FAR 37.6 states:

Agencies shall develop quality assurance surveillance plans when acquiring services (see 46.103 and 46.401(a)). These plans shall recognize the responsibility of the contractor (see 46.105) to carry out its quality control obligations and shall contain measurable inspection and acceptance criteria corresponding to the performance standards contained in the statement of work. The quality assurance surveillance plans shall focus on the level of performance required by the statement of work, rather than the methodology used by the contractor to achieve that level of performance.

FAR Part 16.3, “Cost-Reimbursement Contracts,” and FAR 16.6, “Time-and-Materials, Labor-Hour, and Letter Contracts” allow for the use of cost-reimbursement and time-and-materials contracts only when appropriate

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Government surveillance during performance will provide reasonable assurance that efficient methods and effective cost controls are used.

**Review and Approval of Contractor Vouchers.** DFARS 242.803 states that the contract auditor is the authorized representative of the contracting officer for receiving and approving interim vouchers for provisional payment. An October 2, 2001, memorandum issued by the Principal Deputy Under Secretary of Defense, “Public Vouchers,” states that DCAA, as the contract auditor, has the authority and responsibility for audit examination and approval for payment of contractor vouchers on cost-reimbursement, time-and-materials, and labor-hour contracts. In addition, DCAA can authorize a contractor meeting certain criteria to submit vouchers directly to the Defense Financial Accounting Service for provisional payment using the direct payment process.

**DCAA Contractor Voucher Reviews.** The DCAA prepayment voucher review process consists of several key procedures including verifying that the vouchers for cost-reimbursement and time-and-materials contracts:<sup>4</sup>

- reconcile to contract provisions;
- use acceptable billing rates;
- compute interim fees correctly;
- withhold 5 percent of cost, as applicable (if time-and-materials or labor-hour contract); and
- are mathematically accurate.

Based on the prepayment voucher review, DCAA transmits approved vouchers to the Defense Financial Accounting Service for payment.

**DCAA Approval of Direct Submission of Vouchers for Payment.** When contractors are authorized to submit interim vouchers directly to the Defense Financial Accounting Service for provisional payment, there are no requirements for prepayment voucher reviews. The DCAA direct billing program allows contractors that maintain adequate billing system internal controls, submit timely incurred cost proposals,<sup>5</sup> and submit final vouchers in accordance with FAR Subpart 52.216-7, “Allowable Cost and Payment,” to submit interim vouchers directly to Government paying offices rather than submitting vouchers to DCAA for approval. DCAA field offices perform annual testing of paid vouchers to ascertain whether contractors’ internal controls remain adequate to continue participating in the direct billing program. If a contractor’s ability to directly submit vouchers for payment is revoked, DCAA notifies the

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<sup>4</sup> Cost-reimbursement contracts provide for payment of allowable incurred costs, to the extent prescribed in the contract. Cost-reimbursement contracts are suitable for use only when uncertainties involved in contract performance do not permit costs to be estimated with sufficient accuracy to use any type of fixed-price contract.

<sup>5</sup> Contractors must submit incurred cost proposals to DCAA within 6 months of the end of their fiscal year. The table in Appendix C contains a model of an incurred cost proposal.

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contractor immediately. DCAA must also notify the contracting officer and paying office of the direct submission revocation within 24 hours of informing the contractor.

**Past Performance Requirements.** FAR 42.15 “Contractor Performance Information” states:

Past performance information is relevant information, for future source selection purposes, regarding a contractor’s actions under previously awarded contracts. It includes, for example, the contractor’s record of conforming to contract requirements and to standards of good workmanship; the contractor’s record of forecasting and controlling costs; the contractor’s adherence to contract schedules, including the administrative aspects of performance; the contractor’s history of reasonable and cooperative behavior and commitment to customer satisfaction; and generally, the contractor’s business-like concern for the interest of the customer . . . interim evaluations should be prepared as specified by the agencies to provide current information for source selection purposes, for contracts with a period of performance, including options, exceeding one year.

The Office of the Under Secretary of Defense for Acquisition, Technology, and Logistics (Defense Procurement and Acquisition Policy) issued “A Guide to Collection and Use of Past Performance Information.” The current version, issued in May 2003, articulates the key techniques and practices for the use and collection of past performance information. The publication provides guidance for both the collection and use of past performance. Contracting offices must track past performance information for contracts valued at \$1.0 million or more. These assessments must be made as close as practicable to each anniversary of the effective date of the contract; however, the agencies shall determine the specific dates. A best practice is to include performance expectations in the Government’s and contractor’s initial post-award meeting.

**Performance-Based Contracting Requirements.** In a memorandum to the Secretaries of the Military Departments, and the Directors, Defense agencies, dated April 5, 2000, the Under Secretary of Defense for Acquisition, Technology, and Logistics established that a minimum of 50 percent of service acquisitions, measured both in dollars and actions, should be performance-based by the year 2005. Guidance provided with the memorandum stated that:

In essence, PBSAs [performance-based service acquisitions] should articulate clear, measurable requirements emphasizing quantifiable outcomes, with compensation based on performance measured against those outcomes, and integrated with a quality assurance surveillance plan describing how suppliers’ performance will be evaluated against those measurable requirements.

FAR Subpart 37.601, “Performance-Based Contracting,” prescribes the policies and procedures for use of performance-based contracting methods. FAR Subpart 37.601 states:

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Performance-based contracting methods are intended to ensure that required performance quality levels are achieved and that total payment is related to the degree that services performed or outcomes achieved meet contract standards.

Performance-based statements of work should be prepared for all performance-based contracts. Performance-based contracting should use competitive negotiations to ensure selection of services that offer the best value to the Government, and use contract types that are most likely to motivate contractors to perform at optimal levels. Performance-based contracting should be incorporated into follow-on and repetitive requirements where agencies can rely on experience gained and create firm-fixed-price contracts for these requirements for services.

**Management Control Program Requirements.** DoD Directive 5010.38, “Management Control (MC) Program,” August 26, 1996, and DoD Instruction 5010.40, “Management Control (MC) Program Procedures,” August 28, 1996, require DoD organizations to implement a comprehensive system of management controls that provides reasonable assurance that programs are operating as intended and to evaluate the adequacy of the controls.

## Contract Oversight

Of the 23 contracts reviewed,

- Responsible officials developed required QASPs for 3 contracts, developed inadequate surveillance plans for 6 contracts, and did not develop surveillance plans for 14 contracts;
- Contracting officers or CORs<sup>6</sup> made cursory voucher reviews for 12 contracts;
- Officials from organizations other than DCAA performed prepayment voucher reviews for 13 contracts;
- Responsible officials inadequately documented and recorded contractor past performance information for 10 contracts; and
- Contracting officers did not use performance-based contracting methods for 18 contracts.

Table 1 summarizes the contract oversight problems identified during the audit. Appendix D identifies the problems for each contract examined.

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<sup>6</sup> DCAA was responsible for reviewing and certifying vouchers on 10 contracts in our sample. When DCAA has the responsibility to review vouchers, less effort is required by the contracting officers/CORs to review vouchers.

**Table 1. Summary of Contract Oversight Problems**

<u>Problem Area</u>	<u>Occurrences/Universe</u>	<u>Percent*</u>
Nonexistent surveillance plan	14/23	61
Inadequate surveillance plan	6/23	26
Cursory or nonexistent voucher review	12/23	52
Non-DCAA voucher prepayment review	13/23	57
Inadequate recording of past performance	10/23	43
Nonuse of performance-based contracting methods	18/23	78

\*Judgment sample percentage does not generalize to universe

**Nonexistent and Inadequate Surveillance Plans.** Adequate contract oversight consists of both creating a plan for surveillance of a contractor's performance and costs based on the complexity of each contract and then performing surveillance efforts in accordance with the surveillance plan. To plan surveillance efforts and not implement the plan obviously will not provide adequate contract oversight. To perform surveillance efforts without a plan also does not provide adequate contract oversight because the adequacy of the steps involved is not justified. Also, the length of contracts often extends over multiple years, thus increasing the likelihood of personnel turnover. If turnover of personnel occurs, there is no assurance that the surveillance steps being conducted will continue to be conducted through the life of the contract, and there will not be uniform historical documentation of the surveillance efforts available for review.

**Nonexistent Surveillance Plans.** Fourteen of 23 contracts reviewed did not have a surveillance plan. Without a surveillance plan prepared by the requiring activity, neither contracting nor oversight officials can determine whether contract monitoring efforts are sufficient. Many contracts without surveillance plans also had no discernible methods of monitoring contractor performance or cost. Following are two examples of contracts reviewed that lacked surveillance plans.

**Fleet and Industrial Supply Center Contract**

**N00140-01-C-E403.** There were no surveillance plan or performance metrics prepared for contract N00140-01-C-E403, a cost-plus-fixed-fee contract action with an estimated value of \$34.4 million. The Fleet Industrial Supply Center Norfolk awarded contract N00140-01-C-E403 to CACI Field Services, Incorporated, on October 26, 2000. As stated in the performance-based statement of work, the contractor was to provide technical expertise in afloat and deployable automated supply management to designated Navy and Marine Corps activities through on-site assistance and training, formal training, and database validation, correction, and reconciliation. In addition, the performance-based statement of work did not include performance metrics. The contracting officer stated that, at the time of contract award, including a QASP was not required. However, the current FAR requirements for a QASP went into effect in July 1997, more than 3 years prior to the award of the contract.

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Actual on-site monitoring of contractor performance was performed by the technical point of contact (TPOC) who was officially designated by the COR. According to the TPOC, surveillance was conducted through observation of student attendees, feedback from student attendees, and feedback from military personnel on how contractors were performing on military ships. The TPOC added that he depended on military personnel to ensure labor hours were correct. However, the surveillance efforts were not comprehensive and did not provide assurance that the contractor was adequately performing in accordance with the contract requirements. The TPOC did not document his surveillance efforts and was unable to demonstrate that he adequately monitored the contractor performance. There was no surveillance plan listing the surveillance steps, frequency of surveillance, and metrics for measuring acceptable contractor performance. The TPOC had no documentation showing that the training received had been effective or that automated supply management had improved. Further, there was no documentation that the TPOC had validated the labor costs associated with the work, through coordination with the cognizant DCAA audit office. We reviewed two FY 2003 vouchers amounting to \$1.1 million to evaluate the review process. We found that the vouchers had not been reviewed before payment because the contractor was approved to participate in the DCAA direct billing program. Overall, the Navy spent an estimated \$34.4 million on this contract. Documentation should be maintained to show that the contractor performed satisfactorily and billed DoD accurately for the work performed.

**U.S. Army Intelligence and Information Command Contract DASC01-02-D-0002.** The designated COR did not prepare a surveillance plan or performance metrics for contract DASC01-02-D-0002, task order 0004, a time-and-materials contract action worth an estimated \$27.2 million. The U.S. Army Intelligence and Information Command awarded contract DASC01-02-D-0002 to TASC, Incorporated, on August 7, 2002. The contract had a total dollar value of \$314.1 million. Task order 0004 was issued on October 1, 2002, to TASC, Incorporated. The requirements under task order 0004 were to be performed at Fort Belvoir, Virginia; Fort Huachuca, Arizona; Mannheim, Germany; Taegu, Korea; Fort Shafter, Hawaii; Fort Gordon, Georgia; and Camp Doha, Kuwait. Approximately 205 contractor personnel performed on this task order.

As stated in the statement of work, TASC, Incorporated, was to provide information operations system engineering, integration, operational, program management, and technical support to the Army's Land Information Warfare Activity. Although the COR designation letter required the COR to prepare a QASP for this contract, none had been created. Also, a procurement management review conducted on the COR by the contracting office on January 21, 2004, acknowledged that the COR was required to develop a QASP, and recommended that a QASP be completed and submitted to the contracting officer for approval. As of our review in June 2004, 1 year and 10 months after contract award, a QASP had still not been created.

The COR maintained a surveillance file that included a copy of the contract and task orders, the COR designation letter, contractor monthly status reports, quarterly technical reviews, and annual in-progress reviews. Contractor performance was measured by reviewing monthly contractor status reports, and through feedback from technical task monitors received annually via the task

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order performance evaluation sheet. There were seven technical task monitors for this contract, one at each of the six regions where work was being performed and also a primary technical task monitor. The COR had developed a Task Order Performance Evaluation Sheet, and although she considered it to be a surveillance plan, it was rather an annual evaluation sheet listing the areas to be evaluated. It was cursory and did not describe the methods and frequency of inspections, or the metrics for measuring acceptable performance. The technical task monitor referred to it as a yearly evaluation checklist and did not consider it to be a good evaluation tool.

Because the contract was a time-and-materials contract with no incentive for the contractor to perform efficiently, FAR 16.6 required a more comprehensive surveillance effort by the Government. The COR, however, did not demonstrate an adequate monitoring of contractor performance. There was no surveillance plan and no indication that a comprehensive and systematic surveillance of contractor performance occurred.

**Inadequate Surveillance Plans.** Six of the 23 contracts reviewed had surveillance plans, but did not develop QASPs to ensure that contractor performance and costs were monitored throughout the contracted period of performance in a consistent and equitable manner. Those six contracts were monitored by Government officials and the surveillance efforts being performed at the time of review were adequate to ensure satisfactory contractor performance in accordance with the terms of the contract. However, the contract oversight of the six contracts was inadequate because the steps being performed were not documented in a QASP. An adequate surveillance plan provides the foundation for a comprehensive and systematic monitoring of contractor performance and a standard against which actual surveillance efforts can be measured. The lack of an adequate surveillance plan subjects the Government to greater risk that the contractor may not be performing all contractual requirements in accordance with the contract terms.

Although the steps being performed were not documented in a QASP, we did note one good example of surveillance. Monitoring efforts for the Captured Enemy Ammunition contracts supporting the U.S. Army Corp of Engineers, Engineering and Support Center (HNC), Huntsville, Alabama, deserved recognition. Coalition Provisional Authority Inspector General<sup>7</sup> auditors, located in Iraq, conducted the review of these time-and-materials contracts on behalf of the DoD Office of Inspector General. Although contractors were performing the work on Captured Enemy Ammunition contracts in a war zone, the designated CORs were able to demonstrate that they followed the duties as stated in their designation letters. The contractors prepared daily Situation Reports to keep all levels of personnel informed of the status of the contracts. Government personnel verified time and attendance of contractors, and matched factors such as vacation and sick leave with contractor-prepared time sheets. All time sheets were reviewed by the U.S. Army Corps of Engineers Iraq project manager. Any discrepancies were resolved

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<sup>7</sup> The Office of the Special Inspector General for Iraq Reconstruction is the successor to the Coalition Provisional Authority Inspector General. Under the law that created the Coalition Provisional Authority Inspector General, the office was to terminate 6 months after the Coalition Provisional Authority's dissolution, which occurred June 28, 2004.

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before payments were made to the contractor. The CORs maintained adequate surveillance files and were able to produce contract documentation upon request. Though productivity was not specifically measured in the short term, Iraq Captured Enemy Ammunition contract personnel were able to provide a graph showing that, overall, the contracts were under budget and ahead of schedule. The only shortcoming noted was that the surveillance plan was not as comprehensive as a QASP, and surveillance steps were not adequately documented. This applies to contracts DACA87-00-D-0036, task order 0019; DACA87-00-D-0037, task order 0033; DACA87-00-D-0038, task order 0035; and DACA87-00-D-0039, task order 0008.

**Quality Assurance Surveillance Plans.** Of 23 contracts reviewed, 3 contained detailed QASPs and had personnel performing adequate contract surveillance efforts. A QASP provides for more thorough and comprehensive monitoring of contractor performance. To facilitate effective contract surveillance, Federal procurement regulations require agencies to develop QASPs for all service contracts. A QASP is used to measure contractor performance and ensure that the Government receives the quality of services called for under the contract, paying only for services received in accordance with the terms of the contract. Requiring activity officials should prepare QASPs in conjunction with the preparation of the statement of work. A QASP should specify all work requiring surveillance and the method of surveillance. The use of a QASP is even more necessary when dealing with cost-reimbursement and time-and-materials service contracts. These contracts present the Government with greater risk than firm-fixed-price contracts because the contractor has less incentive to control costs. To compensate for this risk, the Government must maintain close surveillance over performance to ensure that inefficient or wasteful methods are not being used and that the effort is performed within the estimated cost.

The Electronic Systems Center, Hanscom Air Force Base, Massachusetts; the Aeronautical Systems Center, Wright-Patterson Air Force Base, Ohio; and the Naval Air Systems Command, Patuxent River, Maryland; each developed a QASP for their requirement. The three QASPs each contained performance standards and metrics for measuring contractor performance in accordance with the statement of work. The plans described how surveillance personnel were to compare the contractor's actual performance with the contract requirements, including methods and frequency of inspections and criteria for acceptable performance. The QASPs contained performance objectives and performance thresholds related to specific statement of work objectives. Methodologies for contract surveillance differed. For instance, the Government quality assurance personnel at the Electronic Systems Center and Aeronautical Systems Center conducted monthly evaluations, while the Naval Air Systems Command personnel conducted quarterly evaluations for performance objectives. However, the QASPs provided a comprehensive and systematic method for evaluating the contractors' performances and costs. Quality assurance personnel for the three contracts performed surveillance in accordance with the QASPs and demonstrated adequate monitoring of contractor performance.

**Electronic Systems Center.** Air Force contracting officials at the Electronic Systems Center, Hanscom Air Force Base, Massachusetts, awarded contract F19650-02-D-0010 on July 8, 2002, to provide personnel, equipment,

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tools, materials, vehicles, supervision, and other items and services necessary to perform all civil engineer services, tasks, and functions for Hanscom Air Force Base. This cost-plus-award-fee contract had a base year value of \$31.5 million and included four 1-year options for a total contract value of \$156.9 million.

**Aeronautical Systems Center.** Air Force contracting officials at the Aeronautical Systems Center, Wright-Patterson Air Force Base, Ohio, awarded contract F33601-00-D-P002, task order 5073, on October 1, 2002, to provide an uninterrupted continuation of communications and computer systems and services to organizations and users relying on the Wright-Patterson Air Force Base networks and supported systems and applications. This firm-fixed-price contract was valued at \$3.5 million, while the estimated price for the entire contract was \$75.0 million.

**Naval Air Systems Command.** Navy contracting officials at the Naval Air Systems Command, Patuxent River, Maryland, awarded contract N00019-03-C-0041 on May 19, 2003, for contractor performance applicable to logistics support of the F/A-18E/F weapon system and the Advanced Targeting Forward Looking Infrared system for the F/A 18A+/C/D/E/F. This cost-plus-incentive-fee contract had an estimated value of \$57.1 million.

**Review of Contractor Vouchers.** Within DoD, the authority to review and approve payment of contractors' vouchers under cost-reimbursement and time-and-materials contracts is delegated to DCAA by DFARS 242.803(b) and set forth in DoD Directive No. 5105.36. To be paid for services provided to the Government, contractors must submit vouchers to DCAA or other payment approval authority as allowed by regulation or statute. Before approving the vouchers for payment, DCAA uses the process discussed on page 6 of this report including periodically, based on risk, reviewing contractor time sheets on a random basis, and periodically performing floor checks of contractor employees.<sup>8</sup>

DCAA also authorizes contractors to directly submit interim vouchers to the Defense Financial Accounting Service for payment when contractors have approved billing systems in accordance with DFARS 242.803. Currently, DoD policies and procedures do not clearly define the roles and responsibilities of contracting officers, CORs, and DCAA, when DCAA is provisionally approving interim vouchers for payment or has approved a contractor for direct billing submission. The contracting officer or the COR should coordinate any cost issues they identify during contract performance with DCAA. Such coordination will enable DCAA to determine if such issues are systemic in nature and whether the issues impact the adequacy of the contractors' internal controls. The contracting officer should ensure that program officials, such as the COR, are aware of the DCAA role in performing oversight of contract costs and related systems, and DCAA responsibilities with respect to processing vouchers.

For 9 of the 23 contracts reviewed, DCAA authorized the contractors for direct billing submission and approved vouchers for provisional payment on 1 contract. Of the 13 remaining contracts, the contracting officer approved vouchers for

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<sup>8</sup> Floor checks are described in Appendix C.

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payment for 4 contracts, the designated COR for 3 contracts, the technical monitor for 3 contracts, and DCMA for 3 contracts.

**Cursory or Nonexistent Voucher Reviews.** Of the 23 contracts reviewed, 12 had cursory or nonexistent voucher reviews by the contracting officers and CORs. Those contracts for which DCAA was responsible for voucher reviews required less effort by the contracting officers and CORs; however, those officials were in the best position to assess whether there were potential problems with contractor performance or labor charges on individual contracts.

For the 10 contracts for which DCAA was responsible for voucher reviews, 9 contracts were with contractors approved for direct billing submission and 1 contract had vouchers approved by DCAA officials. Under current regulations, no contracting officer/COR voucher review was required for those contract actions. However, the contract officer or COR should be familiar with submitted vouchers to provide greater assurance that the contractor vouchers are valid and accurate. Our audit found that in 7 instances, the contracting officer/COR voucher review was cursory; in 2 instances, we could not determine the extent of the review; and in 1 instance, there was no contracting officer/COR review at all.

For the 13 contracts with vouchers reviewed by other than DCAA officials, the responsible officials performed cursory voucher reviews for 4 contracts. For the remaining 9 contracts, non-DCAA personnel performed adequate voucher reviews on 6 contracts, while we did not review the level of surveillance on the 3 remaining contracts.

**Cursory Review Examples.** An example of a contract with a cursory review is contract DCA200-00-D-5013, task order 0016, a \$17.8 million effort awarded by the Defense Information Technology Contracting Organization to Computer Science Corporation on January 7, 2003, as part of the Information Assurance Information Technology Capabilities Contract, or I Assure, multiple-award requirement. This time-and-materials task order was for the technical support of Field Security Operations, Combatant Commands, Global Network Operations and Security Center, and Regional Network Operations and Security Centers. It provided real-time and near real-time defense information assurance operations support for the designated areas of responsibility. The total value of the basic contract was \$1.5 billion.

Although the Defense Information Technology Contracting Organization had created the “I Assure Task Order Guide” that included guidance on the review of contractor vouchers, the guidance was vague about specific procedures for validating vouchers. According to the COR, most of the contractor surveillance, including the review and certification of contractor vouchers, was performed by the technical monitors whose surveillance efforts focused on performance of the technical aspects of the task orders and not on cost issues. As part of the voucher review process, the technical monitor maintained a spreadsheet of all vouchers submitted by the contractor, as well as copies of the vouchers, and conducted a cursory review of each voucher to see if the labor hours and labor categories appeared to be appropriate. Contract surveillance for this contract should include DCAA prepayment voucher reviews, confirmation of rates, and review of

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contractor systems to ensure that off-site accounting for costs was proper. This review process was, however, insufficient without DCAA involvement and coordination, especially because this was a time-and-materials contract, necessitating a more in-depth review process that ensured all contractors charged to the contract were performing as required and that the services received by the Government met all contractual requirements.

An example of cursory reviews being conducted because of insufficient training is contract N00140-03-D-H011, a \$3.7 million effort awarded by the Fleet Industrial Supply Center, Norfolk Detachment, Philadelphia, on December 2, 2002, to Access Systems, Incorporated. The indefinite-delivery, indefinite-quantity labor-hour contract consisted of a base year with 4 option years. The total estimated value of the contract base year was \$3.7 million, and the total estimated value for the entire 5 years, including option periods, was \$19.1 million. The contract was for technical, administrative, and clerical services in support of the U.S. Joint Forces Command in Norfolk, Virginia, and its components in the Tidewater area.

The designated COR was responsible for evaluating the contractor's certificate of performance and post-payment review of contractor vouchers (the contractor had been authorized by DCAA to participate in the direct billing program). The COR performed a cursory review of the contractor monthly vouchers and then sent a copy to the TPOCs who provided their concurrence or nonconcurrence of the costs. There were 15 TPOCs assisting the COR in monitoring the contractor, one for each task order under the contract. The COR did not know what procedures the TPOCs used to monitor the contractor performance and costs. There were no guidelines or procedures provided to the TPOCs for the review of vouchers and no documentation supporting their efforts. The COR did not adhere to the Naval Supply Systems Command Contract Administration Plan, which provided specific contract administration duties related to the procuring contracting office, the contract administration office, and the COR. The plan included duties required of the COR in regards to the review and certification of contractor vouchers. The plan noted that DCAA was responsible for audit verification/provisional approval of vouchers and final audit of this contract prior to final payment to the contractor. Although the Contract Administration Plan was an enclosure to her COR designation letter, the COR stated that she was not aware of it or the specified duties for reviewing vouchers. The plan stated: "the COR shall expeditiously review copies of the contractor's invoices [vouchers], certificate of performance, and all other supporting documentation to determine the reasonableness of the billing." The COR did not adequately review and certify contractor vouchers. The COR failed to follow prescribed Navy guidance and relied totally on TPOCs for their concurrence of contractor vouchers without any documentation of their surveillance efforts. Program officials must be trained in the necessity to closely coordinate any required reviews of costs in contractor vouchers with the cognizant DCAA office.

**Direct Pay Example.** The Electronic Systems Center contracting office did not sufficiently review vouchers on delivery order 001 under contract F19650-02-D-0010, a \$3.2 million dollar contract action issued on March 1, 2003, to provide base sustainment services at Hanscom Air Force Base, Massachusetts. The contractor, Del Jen, Incorporated, had been authorized to participate in the direct billing program, and therefore, prepayment reviews of

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each voucher were not required. However, DCAA floor checks conducted on July 31, 2003, and August 1, 2003, at the request of the contracting officer, found several internal control weaknesses with the contractor's labor timekeeping system. A follow-up review conducted by DCAA on June 16, 2004, found recurring deficiencies in the contractor's timekeeping policies and procedures. As a result of the deficiencies, DCAA rescinded Del Jen's ability to participate in the direct billing program on June 17, 2004. The rescission letter stated that Del Jen, Incorporated, would receive reinstatement of its ability to submit vouchers directly to the payment office upon correction of the noted deficiencies and approval of the cognizant procurement contracting officer. Upon the rescission, the Electronic Systems Center contracting officer assumed the responsibility for certifying the contractor vouchers. The contracting officer had no procedures or guidelines to follow in relation to the prepayment review and certification of contractor vouchers. The contracting officer reviewed monthly contractor vouchers and compared them with monthly contractor-generated status reports. The contracting officer stated that he relied on Electronic Systems Center quality assurance personnel to validate the billed costs. However, the quality assurance personnel stated that they did not conduct surveillance of contractor costs, such as a comparison of actual contractor labor hours and labor categories being charged. They did not have the training or experience necessary to monitor labor costs. Once the contracting officer became responsible for reviewing contractor vouchers, there was not an effective method used to provisionally approve the payment of contractor costs on this \$157.0 million cost-reimbursement contract. The contracting officer should have coordinated with DCAA so that DCAA could provide interim approval of contractor vouchers. This example demonstrates a need to have DCAA involved in the interim approval of vouchers, so as to free up the contracting officer or COR to apply their expertise in real-time monitoring and post-payment reviews of contractor performance, while coordinating any concerns related to costs with DCAA.

**Comprehensive Voucher Reviews.** The voucher review procedures listed in the four HNC Iraqi Captured Enemy Ammunition contracts included comprehensive procedures pertaining to the review and certification of contractor vouchers. Even though the work was occurring in Iraq under life-threatening conditions, program officials were still able to perform a thorough review of contractor vouchers. Program officials in this instance should be commended for their ability to accomplish thorough reviews of contractor performance in a war zone.

HNC awarded contract DACA87-00-D-0036, task order 0019, to USA Environmental, Incorporated, on August 8, 2003. The basic contract and task order estimated values were \$120.0 million and \$65.0 million, respectively. The task order was for cradle-to-grave management of captured enemy ammunition in Iraq. Government representatives were responsible for the review and approval of contractor attendance, as well as conducting analysis of annual leave and sick leave to ensure the contractor did not charge improper leave to the contract. Though HNC voucher review guidelines stated that the sample selection was at the discretion of the COR, the COR did not select random samples, but reviewed every contractor time card, with the exception of some remote locations. The COR stated that voucher discrepancies had to be resolved between the contractor

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and Government before vouchers were approved for payment. CORs were able to demonstrate the validation of labor hours through the time card reviews.

HNC demonstrated how it established and implemented sound voucher review guidance to monitor contractor costs. HNC voucher review procedures included the following steps.

- Review and compare contractor-provided voucher backup to support services performed for the contract and task orders.
- Review vouchers to determine if all costs are allowable and substantiated. Government personnel and the contractor discuss all unsubstantiated costs. Both parties agree to a resolution to clear up unsubstantiated costs.
- Review labor rates to ensure they are in accordance with both the contract and task orders. Ensure the contracting officer has approved all contractor overtime before payment of costs. In addition, ensure that travel costs, including airfares, rental cars, and per diem rates, are in accordance with travel regulations.
- Perform and document surveillance at least quarterly to ensure the contractor is adhering to contract and task order requirements.
- Review a random, representative sample of time cards for entry error, signatures, proper dates, and contracting officer approval for excessive overtime. The program manager has the authority to choose and adjust the size of the sample due to error rates and accuracy observed.
- Specify whether site staffing totals match the number of employees agreed upon in the task order.

While commendable in many respects, HNC failed to make use of DCAA for prepayment voucher reviews, confirmation of rates, and review of contractor systems to ensure that off-site accounting for costs was proper. Such coordination in the future would free up HNC resources to better focus on their primary areas of expertise—real-time monitoring of contractor activity and post-payment reviews of contractor performance against cost.

**Prepayment Voucher Approval.** Although DCAA is assigned the responsibility under DFARS 242.803(b) as the authorized representative of the contracting officer for receiving and approving interim vouchers for provisional payment, officials other than DCAA approved vouchers for payment on 13 of the 23 contracts reviewed. On 9 of the 10 contracts where DCAA approved the vouchers, contractors were authorized for direct billing submission. DCAA physically approved vouchers for provisional payment on one contract.

Contracting officers, CORs, or other Government officials should use the services of DCAA to perform prepayment voucher reviews, and then use the paid vouchers in their postpayment reviews and on-site monitoring of contractor performance. If they discover potential issues that impact cost, DCAA should be notified to ensure that costs claimed on the contract are allowable, allocable, and

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in compliance with contract terms. This coordination would also assist in identifying any systemic deficiencies in the contractor's associated accounting and billing systems. If DCAA determines that the contractor has claimed and been paid for costs not allowable or allocable, a DCAA Form 1 (Notice of Contracts Costs Suspended and/or Disapproved) will be issued to immediately reduce the contractor's next voucher by the suspended or disapproved amount. In addition, DCAA may perform an examination of the contractor's systems to identify the deficiencies that require corrective action. DCAA would then notify contracting officers and contract administration offices of system deficiencies identified. DCAA will monitor the status of corrections of the system deficiencies until all corrective actions are taken by the contractor and subsequently evaluated by DCAA. Only through voucher reviews and real-time observations of contractor performance, and post-payment reviews of contractor performance against costs by contracting officers or delegates, can there be reasonable assurance of effective and efficient surveillance of contractor costs and performance without duplicating surveillance activities.

**Contractor Past Performance.** DoD policy states that contracts worth \$1.0 million or more with a period of performance greater than 1 year will have annual performance assessment reports prepared. Periodically evaluating and documenting current contractor performance into an automated past performance information system provides valuable input to a contractor's prior performance, which can be an integral part of the "best value" source selection decision in future contract awards. It also provides the contractor with added motivation to perform at a very high quality because future source selection decisions can be greatly impacted by the contractor's prior level of performance. Additionally, it can provide impetus for contractors to improve inadequate performance before the next reporting cycle.

Contract performance had not been adequately recorded for 10 of the 23 contracts reviewed during the audit. Past performance information had not been recorded and input into the past performance data collection systems for 9 of the 10 contracts. One contract was not recorded in a timely fashion due to the contracting officer's failure to register the contract in the Contractor Performance Assessment Reporting System at the time of contract award. Therefore, past performance information could not be input into the system. The contracting officer finally registered the contract in the Contractor Performance Assessment Reporting System approximately 18 months after contract award, and past performance information was input into the system by the COR.

**Performance-Based Contracts.** Only 5 of the 23 contracts reviewed (22 percent)<sup>9</sup> were performance-based acquisitions that included performance-based statements of work that enabled assessment of contractor performance against measurable performance standards. The 5 contracts had a total value of \$91.6 million, amounting to 13.7 percent<sup>8</sup> of the \$670.4 million value of the 23 contracts reviewed. This falls far short of the 50 percent minimum mandated by the Under Secretary of Defense for Acquisition, Technology, and Logistics, measured both in dollars and actions by the year 2005. The five performance-based contracts were U.S. Army Aviation and Missile Command contract

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<sup>9</sup> Judgment sample percentage does not generalize to universe.

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DAAH01-03-C-0042/P0004, valued at \$15.0 million; Naval Sea Systems Command contract N00024-00-D-6000/GG78, valued at \$12.8 million; Naval Air Systems Command contract N00019-03-C-0041, valued at \$57.1 million; Electronic Systems Center contract F19650-02-D-0010/000101, valued at \$3.2 million; and Aeronautical Systems Center contract F33601-00-D-P002/5073, valued at \$3.5 million. In addition, one contract had a statement of work that stated it was a performance-based statement of work, while another contract was considered performance-based by the contracting officer. However, neither of these two contracts had statements of work that included measurable performance standards, and therefore, were not truly performance-based.

## Oversight Guidance

Because guidance was either lacking or unclear, contracting and requiring activity personnel did not prepare QASPs, sufficiently review contractor performance, or adequately document how and by whom contract oversight would be conducted. In addition, DoD regulation and guidance that was in existence was not adequately followed.

**QASP Requirements.** Contracting officials were unclear on the requirements for a QASP when contracting for services. Contracting officials had varying reasons for not preparing QASPs, all of which demonstrated that they did not have a clear understanding of the requirements for a QASP when contracting for services.

- Five stated that a QASP was not required because the contract was not performance-based.
- Two stated that a QASP was not prepared because it is not conducive to time-and-materials contracts.
- One stated that a QASP was not required because the contract was for a commercial service.
- Two stated that a QASP was not required at the time of contract award.
- Two did not know why a QASP was not prepared.

Contracting and requiring activity personnel need to be better informed on the requirements for a QASP when contracting for services. FAR Part 46 requires a QASP for all service contracts. Contracting offices should not award service contracts unless a properly prepared QASP has been received from the requiring activity. The Acquisition Executives for the Army, the Navy, and the Air Force, and the Director, Defense Information Systems Agency (DISA), must ensure that training on the preparation of QASPs is provided to requiring activity personnel.

**Voucher Approval Procedures.** Although DCAA has the authority and responsibility to review and approve interim vouchers for payment, over half the vouchers approved were signed by non-DCAA personnel. DoD policies and

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procedures are needed to clearly define the roles and responsibilities of DCAA, the COR, and the program office regarding the review and approval of interim vouchers. Contracting officials were unclear on their responsibilities regarding voucher reviews due to an October 2, 2001, memorandum issued by the Principal Deputy Under Secretary of Defense entitled "Public Vouchers." The memorandum states that DCAA has the authority and responsibility for audit examination and approval for payment of vouchers. The memorandum instructs DoD Components to "stop requiring contractors to submit detailed cost information as part of the billing process." This guidance should be expanded to provide clear guidelines for contract risk assessment, responsibility for voucher reviews, and the roles of contracting officers and CORs.

At the time of preparing the QASP, the contracting office and program office must work together in coordination with the cognizant DCAA audit office to first assess the risk of contractor noncompliance and then devise an adequate surveillance plan, which addresses the types and frequency of reviews of contractor costs. Comprehensive plans are required for all cost-reimbursement, time-and-materials, and labor-hour contracts.

DCAA contractor audits play a significant role in ensuring contract costs claimed and billed are allowable, allocable, and reasonable. When DCAA is reviewing contract vouchers, the contracting and program offices still need to monitor contractors' performance and technical efforts and their relationship to costs as part of their overall surveillance responsibilities. In addition, contracting officers or appointees should coordinate with DCAA and report contract cost issues that may be disclosed in the course of their normal surveillance activities. On cost-reimbursement and time-and-materials contracts, the contracting officer and COR are in the best position to monitor contract performance, technical and quality issues, and their relationship to costs. DCAA has been authorized the review and approval responsibilities for interim vouchers, including situations where they have authorized the contractor for direct billing submission. The contracting and requiring activity personnel should confer with DCAA to ensure that the auditors are aware of cost or system issues disclosed by on-site surveillance. Having the contracting officer or COR complementing DCAA efforts in the contract review process will provide greater assurance that contractor costs are accurate and in accordance with the contract requirements. If DCAA audits find problems with the contract controls on contractors approved to submit vouchers directly to a paying office (as in the Electronic Systems Center contract F19650-02-D-0010), the contracting officer should serve to facilitate contractor correction of the noted problems.

**Documenting Surveillance Roles and Responsibilities.** Contracting officers usually appointed representatives to monitor contractors' performance for service contracts reviewed. However, for 10 of the 23 contracts reviewed, the duties and responsibilities of surveillance personnel were not clearly stated. In addition, for 13 contracts reviewed, the surveillance personnel did not perform the general duties that were listed in the contract. For example, the Defense Information Technology Contracting Organization had task order guidance for contracts DCA200-02-D-5006, DCA200-00-D-5013, and DCA200-00-D-5014 that held the task monitor responsible for developing a surveillance plan. However, a surveillance plan was not developed for the contract actions. The Defense Supply

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Service-Washington had guidance that required the COR to develop and implement a surveillance plan for each delivery order. There were no surveillance plans, and the COR had no knowledge as to how surveillance was being conducted. The U.S. Army Intelligence and Information Command contract DASC01-02-D-0002 included a COR designation letter that required the COR to develop a QASP; however, none was developed.

In addition, 9 of the 23 contracts had been approved for participation in the direct billing program. In one of those instances, the contracting officer thought the contractor vouchers were being reviewed and approved by DCMA; while in another instance, the contracting officer thought the vouchers were being reviewed and approved by the COR when both contractors were actually authorized by DCAA for direct billing submission. Therefore there was no requirement for voucher review. The roles and responsibilities of all surveillance personnel should be clearly stated in DoD policies and procedures. The contracting officer and oversight personnel should understand their responsibilities and the responsibilities of all personnel and agencies involved with each contract including the specific responsibilities of DCAA and DCMA.

## Management Control Program Review

Military Departments and DISA contract activities had material management control weaknesses because they did not effectively implement the prescribed requirements of the DoD Management Control Program (MCP). Of the 11 activities visited, 4 did not report contract administration as an assessable unit. One stated that its office was not required to prepare an MCP, and another did not provide the audit team MCP information. Although the other five organizations did report contract administration as an assessable unit, their programs did not contain basic controls that would have precluded contracting officials and requiring activity personnel from performing insufficient oversight of service contracts.

**Scope of the Review of the Management Control Program.** We reviewed management control procedures related to contract actions awarded for four major service categories: Other ADP and Telecommunication Services (Service Category Code D-399), Hazardous Substance Removal/Cleanup/Disposal (Service Category Code F-108), Logistics Support Services (Service Category Code R-706), and Facilities Operations Support Services (Service Category Code S-216). We were concerned about whether the Government provides sufficient contract oversight for service contracts. We specifically reviewed Government surveillance and past performance. We reviewed management's self-evaluation applicable to these controls.

**Adequacy of Management Controls.** We identified material management control weaknesses for the Military Departments and DISA, as defined by DoD Instruction 5010.40. Military Department and DISA management controls for surveillance were not adequate to ensure that duties and responsibilities, including surveillance plans, were adhered to. Also, past performance controls were not adequate to ensure the recording of past performance evaluations. The identified

weaknesses were due to Military Departments and DISA not effectively implementing the prescribed requirements of the DoD MCP. Of the 11 activities visited, the U.S. Army Intelligence and Security Command; Naval Air Systems Command; Defense Information Technology Contracting Office; and Material Systems Group did not report contract administration as an assessable unit. The Fleet and Industrial Supply Center stated that its office was not required to prepare an MCP, and the U.S. Army Corp of Engineers Engineering and Support Center, Huntsville did not provide the audit team MCP information. Although the U.S. Army Aviation and Missile Command; Naval Sea Systems Command; Electronic Systems Center; Aeronautical Systems Center; and Defense Contract Command-Washington reported contract administration as an assessable unit, their programs did not contain basic controls that would have precluded contracting officials and requiring activity personnel from performing insufficient oversight for service contracts. See Table 2 for a summary of contract activities MCP deficiencies identified during the audit. Recommendations 1.d. and 2.b., if implemented, will improve procedures that the Military Departments and DISA use for contract administration functions. A copy of the report will be provided to the senior officials responsible for management controls in the Military Departments and DISA.

**Table 2: Summary of Management Control Program Deficiencies**

<u>Activity*</u>	<u>No Contract Administration Assessable Unit</u>	<u>No Surveillance/Past Performance Steps</u>	<u>No Contract Administration Risk Assessments</u>
AAMCOM		X	X
ASC	X	X	X
DITCO	X	X	X
ESC		X	X
INSCOM	X	X	X
MSG		X	X
NAVAIR	X	X	X
NMCI		X	X
Totals	4	8	8

AAMCOM	U.S. Army Aviation and Missile Command
ASC	Aeronautical System Center
DCCW	Defense Contract Command-Washington
DITCO	Defense Information Technology Contracting Office
ESC	Electronic Systems Center
FISC	Fleet and Industrial Supply Center
HNC	U.S. Army Corps of Engineers Engineering and Support Center, Huntsville
INSCOM	U.S. Army Intelligence and Security Command
MSG	Material Systems Group
NAVAIR	Naval Air Systems Command
NMCI	Navy Marine Corps Intranet

\*There were a total of 11 activities visited. The other 3 were not listed in the table because HNC did not provide an MCP, FISC was not required to prepare an MCP, and DCCW provided all of the MCP information requested.

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## Conclusion

Monitoring contractor performance and costs is essential to protecting the interests of the Government. By assuring that contracted products and services meet the performance standards set forth in contracts, and that prices are reasonable, accurate, and within the scope of the contract, Government officials fulfill their fiduciary responsibilities. Service contracts awarded on a cost-reimbursement or time-and-materials basis require special vigilance during contract performance to ensure the Government receives good value. Failure by contracting and requiring activity personnel to sufficiently monitor the contractor subjects the Government to greater risk of substandard contractor performance, increased costs, and continued contractual relationships with nonperforming contractors.

The FAR only allows for the use of cost-reimbursement and time-and-materials contracts when appropriate Government surveillance during performance will provide reasonable assurance that efficient methods and effective cost controls are used. The best method to provide reasonable assurance of quality performance within budget guidelines is to develop a QASP while developing the contract statement of work. Military and Defense agencies should ensure that requiring activity personnel are properly trained in the preparation of QASPs, and that QASPs are prepared for all service contracts. In addition, ensuring that surveillance duties and responsibilities are clearly defined in DoD policies and procedures and are adequately performed will improve management and oversight of service contracts.

Finally, the failure to record contractor past performance information into an automated past performance data collection system deprives the Government of a valuable tool for making best value decisions in future contract awards. Management controls need to be implemented to ensure that past performance information is being recorded and inputted into past performance information systems on a timely basis.

## Management Comments on the Finding and Audit Response

**Under Secretary of Defense for Acquisition, Technology, and Logistics Comments.** The Acting Director, Defense Procurement and Acquisition Policy, provided comments for the Office of the Under Secretary of Defense for Acquisition, Technology, and Logistics. The Acting Director stated that Table 2, “Voucher Summary,” of the Finding was misleading. Specifically, the Acting Director stated that the table and subsequent explanatory paragraphs confused the concepts and responsibilities associated with the prepayment review of vouchers with the program monitoring and surveillance functions that would typically occur during postpayment analysis. As a result, the table did not clearly illustrate who performed the prepayment reviews because the table included personnel who

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conducted surveillance monitoring activities. Therefore, the Acting Director recommended that both the “Direct Pay Submission” and “DCAA” columns be deleted from the table.

The Acting Director, Defense Procurement and Acquisition Policy, disagreed that officials were unclear on their responsibilities regarding voucher reviews due to an October 2, 2001, memorandum issued by the Principal Deputy Under Secretary of Defense. The memorandum states that DCAA has the authority and responsibility for audit examination and approval of vouchers. The Acting Director added that the memorandum reduced duplicate contractor data submissions that were being required by DoD contracting personnel, thereby saving the contractor and DoD significant monies. The Defense Procurement and Acquisition Policy suggested the removal of this comment from the report.

**Auditor Response.** We deleted Table 2, “Voucher Summary,” of the revised draft report. Table 3, “Summary of Management Control Deficiencies,” is now labeled as Table 2.

The October 2, 2001, memorandum issued by the Principal Deputy Under Secretary of Defense, “Public Vouchers,” states that DCAA has the authority to “approve and sign public vouchers, or authorize a contractor to submit vouchers directly to the disbursing office for payment.” However, many contracting personnel were unclear of the resultant roles and responsibilities of the contracting officer, the contracting officer’s representative, and DCAA when DCAA is approving vouchers for payment. Some contracting office personnel thought this memorandum absolved the contracting officer of all responsibility concerning contract [voucher reviews](#). Since there is no guidance that states DCAA has sole responsibility to certify vouchers for payment, non-DCAA officials approve vouchers for payment on many contracts. More than half of the contracts reviewed in our judgmental sample had non-DCAA officials reviewing vouchers.

**Navy Comments.** The Chief of Staff/Policy for the Deputy Assistant Secretary of the Navy (Acquisition Management) made the following comments regarding the contracts reviewed.

- Contract N00019-00-0183/P00031 is a Fixed-Price/Incentive-Fee supply contract for the production and delivery of aircraft. Therefore, the contract should be removed from the audit report.
- Contract N00019-03-C-0041 contains provisions for direct invoicing to the Defense Finance and Accounting Service as part of the DCAA Direct Submission program. Therefore, the contract does not require invoice reviews. Also, the Chief of Staff/Policy added that the contract was entered into the Contractor Performance Assessment Reporting System in July 2003.
- Contract N00024-00-D-6000 was transferred from the Navy and Marine Corps Intranet to the Space and Naval Warfare Systems Command for post-award administration. The Chief of Staff/Policy recommended that the DoD Inspector General coordinate with the Space and Naval Warfare Systems

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Command to assess surveillance for the Navy and Marine Corps Intranet contract.

**Audit Response.** We reviewed contract action N00019-00-0183/P00075, not contract action N00019-00-C-0183/P00031. Contract action N00019-00-C-0183/P00075 is a Cost-Plus-Fixed-Fee contract with an estimated value of \$40.1 million. The Naval Air Systems Command awarded this Cost-Plus-Fixed-Fee contract for the sustainment of logistics resources for the V-22 end item. We did not remove the Cost-Plus-Fixed-Fee contract from the audit report.

Surveillance personnel must monitor DCAA post approved vouchers to provide greater assurance that contractor performance is in accordance with contract specifications, and notify DCAA of any cost issues that arise from reviews. When contract past performance information was requested at the Naval Air Systems Command, the Program Management Analyst was unable to locate information within the Contractor Performance Assessment Reporting System. Since requiring activity personnel did not provide us with requested past performance documentation, we concluded that past performance information was inadequately inputted and recorded into Contractor Performance Assessment Reporting System.

We interviewed both Navy and Marine Corps Intranet and Space and Naval Warfare Systems Command personnel regarding surveillance for the Navy and Marine Corps Intranet contract. Both requiring activities provided information on the delineation and performance of surveillance duties. CORs at the Space and Naval Warfare Systems Command are responsible for the review and certification of contractor vouchers. The Lead COR delegation letter at the Space and Naval Warfare Systems Command states that COR responsibilities include the certification of contractor vouchers to document that all charges are consistent with performance requirements. However, the Space and Naval Warfare Systems Command Lead COR assigned to the contract informed us that Space and Naval Warfare Systems Command CORs are not responsible for monitoring contractor performance. Rather, the Navy and Marine Corps Intranet Performance Management Division and the Army Information Systems Engineering Command monitor contractor performance.

## **Recommendations, Management Comments, and Audit Response**

We have revised this report to conform to oral comments made by the Defense Contract Audit Agency (DCAA) regarding the draft report during a meeting that took place August 19, 2005. DCAA comments integrated in this report were written to a revised draft report. In addition, we added Recommendations 3. and 4. as a result of the DCAA comments.

### **1. We recommend that the Under Secretary of Defense for Acquisition, Technology, and Logistics:**

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**a. Emphasize to senior contracting officials and program managers the requirement to develop quality assurance surveillance plans for monitoring contractor performance and costs of service contracts. The plans must be prepared in conjunction with the preparation of the statement of work and must specify all work requiring surveillance. The plan should include coordination with DCAA to ensure surveillance activities involving contract costs, such as floor checks, will be performed to the extent and frequency deemed necessary.**

**Management Comments.** The Acting Director, Defense Procurement and Acquisition Policy, partially concurred and stated that the Defense Acquisition University has developed an extensive module on QASPs for implementation into the Defense Acquisition Workforce Improvement Act Level II Contracting Courses. Also, the Office of Defense Procurement and Acquisition Policy will assist the Defense Acquisition University with the inclusion of QASP training into their new online Contracting Officer Technical Representative training course. The new Contracting Officer Technical Representative training course is scheduled for release during the second quarter of FY 2006. Furthermore, guidance on surveillance activities of contract costs will be issued that emphasizes the need for contracting personnel to contact DCAA during contract performance when floor checks or other surveillance activities involving contract costs are needed. However, the Acting Director stated it is not efficient or practical to require contracting personnel to contact DCAA each and every time a QASP is developed. DCAA personnel are available to assist the contracting officer with contract performance when requested. The Acting Director stated that contracting personnel requiring DCAA assistance should request assistance when required, rather than requiring coordination upfront on each and every contract.

**Auditor Response.** To assess the surveillance required for an individual contract, contracting personnel should, at a minimum, assess whether the contractor has been authorized for direct submission of interim vouchers to a payment office and the amount of oversight DCAA has performed on that contractor during the past year. DCAA can provide this information many ways, whether through automation or other methods. However, currently this information is difficult to obtain and not used by contracting offices. In addition, we disagree with the Acting Director, Defense Procurement and Acquisition Policy that DCAA should not be part of each QASP development effort, but that DCAA will handle problems as they occur. We believe that having coordination upfront in the process is more efficient and effective than waiting for cost problems as they occur. In accordance with FAR Part 46.4, a QASP should be prepared for each service contract in conjunction with the statement of work, and should specify all work requiring surveillance and the method of surveillance. Factors influencing the work requiring surveillance and the method of surveillance include the complexity of work and contract type. All parties should conduct upfront coordination to develop strategies to assess risks of contractor noncompliance and then devise a surveillance plan to mitigate these risks. Requiring activity officials and DCAA should coordinate during the preparation of the statement of work and surveillance plan to ensure that there is a clear understanding of their specific responsibilities and restrictions for the monitoring of contractor performance. Upfront planning will increase the likelihood that the

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Government receives services in compliance with contract specifications and that DCAA does not find itself overwhelmed because of unforeseen workload surges. Accordingly, we request the Acting Director to reconsider the recommendation and provide comments on the final report.

**b. Ensure that program office officials are sufficiently trained on the preparation of quality assurance surveillance plans for service contracts that emphasize the use of metrics for measuring contractor performance.**

**Management Comments.** The Acting Director, Defense Procurement and Acquisition Policy, concurred and stated that the Defense Acquisition University developed an extensive module on QASPs for addition into the Defense Acquisition Workforce Improvement Act Level II Contracting Courses. Furthermore, the Defense Procurement and Acquisition Policy will assist the Defense Acquisition University with the inclusion of QASP training into its new online Contracting Officer Technical Representative training course. This course is scheduled for release during the second quarter of FY 2006

**c. To avoid any duplication of effort, ensure that contract and program office personnel coordinate with the DCAA office that has responsibility for voucher review for all cost-reimbursement and time-and-materials service contracts.**

**Management Comments.** The Acting Director, Defense Procurement and Acquisition Policy, partially concurred and stated that they will issue guidance in the Defense Federal Acquisition Regulation Summary Procedures, Guidance, and Information Web site that defines the roles and responsibilities of contract administration personnel, program office personnel, and DCAA. The Director added that the guidance will instruct contract and program office personnel to coordinate with DCAA if they identify any issues involving costs submitted on public vouchers. The guidance should be effective during the second quarter of FY 2006.

**d. Issue a policy that clearly defines the roles and responsibilities of contract personnel to include monitoring contractor performance, and reviewing and approving interim contractor vouchers.**

**Management Comments.** The Acting Director, Defense Procurement and Acquisition Policy, concurred and added that his office will issue guidance in the Defense Federal Acquisition Regulation Summary Procedures, Guidance, and Information Web site that clearly defines the roles and responsibilities of contract personnel regarding the review and approval of interim vouchers, and the use of vouchers in monitoring contractor performance. The guidance should be released during the second quarter of FY 2006.

**e. Establish a requirement that contracting officers clearly define the roles and responsibilities of contract administration personnel within contract Section G, "Contract Administration Data," to include:**

**(1) contract and program office personnel responsible for monitoring contractor performance;**

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**(2) personnel responsible for auditing contractor systems and costs, and reviewing and approving interim contractor vouchers; and**

**(3) other DoD organizations including the Defense Contract Audit Agency and the Defense Contract Management Agency.**

**Management Comments.** The Acting Director, Defense Procurement and Acquisition Policy, partially concurred and stated FAR 14.201-2 and 15.204-2 requires Section G, "Contract Administration Data," to include any required accounting and appropriation data and any required contract administration information or instructions other than those on the solicitation form. The Acting Director added that the response to Recommendation 1.d. noted that the Defense Procurement and Acquisition Policy Office agreed to issue DoD guidance to contracting personnel. The DoD guidance will be issued in the Defense Financial Acquisition Regulation Summary, Procedures, Guidance, and Information Web site and will define the roles and responsibilities of contracting personnel. The Acting Director added that it would be duplicative and inefficient to also require that the defined roles and responsibilities be included within each and every contract. However, the Acting Director stated that if and when a deviation from the guidance is permitted (the guidance will define such circumstances), contracting officers will be required to define the roles and responsibilities in Section G of the contract.

**Audit Response.** The roles and responsibilities should be defined within contract Section G, "Contract Administration Data." In one instance the contracting officer thought DCAA reviewed and approved vouchers; while in another instance, the contracting officer thought the COR reviewed and approved vouchers. In both instances DCAA approved the contractors for direct billing submission. Listing the roles and responsibilities of surveillance personnel within Section G, "Contract Administration Data," would ensure that the contracting officer and oversight personnel are aware of their responsibilities, and the responsibilities of all personnel and agencies involved with each contract, including the specific responsibilities of DCAA and DCMA. The taxpayer expects the Government to verify that efforts contracted for are actually performed. Including all parties' roles and responsibilities within Section G, "Contract Administration Data," will assist in ensuring that surveillance activities are followed. Accordingly, we request the Acting Director of the Defense Procurement and Acquisition Policy reconsider the recommendation and provide comments on the final report.

**2. We recommend that the Acquisition Executives for the Army, the Navy, and the Air Force, and the Director, Defense Information Systems Agency:**

**a. Ensure that program office personnel receive training on the preparation of quality assurance surveillance plans that include metrics for measuring contractor performance when contracting for services.**

**Army Comments.** We provided a copy of the draft report to the Auditor General, Department of Army, on July 25, 2005. No comments have been received. We request that the Acquisition Executive for the Army make comments on the final report by November 28, 2005.

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**Navy Comments.** The Deputy Assistant Secretary of the Navy (Acquisition Management) concurred with the recommendation. The Deputy Assistant Secretary stated performance-based procedures for the acquisition of services is addressed in the Department of the Navy “Performance-Based Service Acquisition Implementation Plan” training. The Navy will reiterate the training requirements to ensure that members of acquisition teams complete Performance-Based Service Acquisition Implementation training prior to efforts necessary to define the requirement, develop an acquisition strategy, or prepare the statement of objectives.

**Air Force Comments.** The Assistant Secretary of the Air Force (Acquisition) concurred with the recommendation, while recommending the term “requirement personnel” replace “program office personnel” because operational Air Force units, which are the majority of Air Force organizations, do not have program offices. In addition, the Assistant Secretary stated the Air Force will rely on the Defense Acquisition University to provide the required training. The Defense Acquisition University is currently in the process of developing a new course, ACQ 265, “Mission Focused Service Acquisition,” that includes QASP training.

**Defense Information Systems Agency Comments.** The Director for Procurement and Logistics, Defense Information Technology Contracting Organization, concurred with the recommendation. In addition to ensuring that program and contracting personnel receive appropriate training for quality assurance surveillance plans, DISA published Component Acquisition Executive Guideline number 1, “Acquisition of Services,” in July 2005. This will serve as an additional training source.

**Audit Response.** All management comments that were received were responsive. We replaced “program office personnel” with “requirement personnel” within all areas of the report that are applicable to the Air Force. We request that the Army Acquisition Executive respond to the final report by November 28, 2005.

**b. Develop and employ management controls to ensure that surveillance duties and responsibilities are adequately performed and documented, including the recording and input of past performance information into past performance information systems on a timely basis.**

**Army Comments.** We provided a copy of the draft report to the Auditor General, Department of Army, on July 25, 2005. No comments have been received. We request that the Acquisition Executive for the Army make comments on the final report by November 28, 2005.

**Navy Comments.** The Deputy Assistant Secretary of the Navy (Acquisition Management) concurred with the recommendation. The Navy will develop management controls to ensure that contract surveillance, including recording and inputting of past performance data, is properly completed.

**Air Force Comments.** The Assistant Secretary of the Air Force (Acquisition) concurred with the recommendation, while adding that the Air Force recently implemented revised surveillance duties and controls within the Air Force Acquisition Regulation Supplement. The Assistant Secretary of the Air Force

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also stated the Air Force has an established surveillance system in place for the recording and inputting of past performance information into the past performance information system.

**Defense Information Systems Agency Comments.** The Director for Procurement and Logistics, Defense Information Technology Contracting Organization, concurred with the recommendation. DISA will add surveillance duties and responsibilities, including the recording and input of past performance information, to its internal management control plans. In addition, the requirements of FAR Part 46, addressing quality assurance surveillance plans, will be added to the DISA internal Procurement Management Reviews of contracting organizations. DISA will also revise its Contracting Officer's Representative designation letters to ensure a more comprehensive understanding of roles and responsibilities.

**Audit Response.** All management comments that were received were responsive. We request that the Army Acquisition Executive respond to the final report by November 28, 2005.

**3. We recommend that the Commander, U.S. Army Corps of Engineers, Engineering and Support Center, Huntsville, consider the use of DCAA for prepayment voucher approvals, confirmation of rates, and review of contractor systems to ensure that off-site accounting for costs is proper.**

**4. We recommend that the Chief, Defense Information Technology Contracting Organization, Scott Air Force Base, consider the use of DCAA for prepayment voucher approvals, confirmation of rates, and review of contractor systems to ensure that off-site accounting for costs is proper.**

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## Appendix A. Scope and Methodology

This audit was performed as a self-initiated risk benefit assessment. Using the Defense Contract Acquisition Reporting System, we judgmentally selected 23 contracts awarded during FY 2003. We used judgmental sampling to limit the number of sites visited and to ensure that we selected only contracts valued at more than \$1.0 million. The 23 contracts selected had an estimated value of \$670.4 million. We focused on four major service categories, each containing a FY 2003 annual value greater than \$1.0 billion: Other ADP and Telecommunication Services (Service Category Code D399), Hazardous Substance Removal/Cleanup/Disposal Services (Service Category Code F108), Logistics Support Services (Service Category Code R706), and Facilities Operations Support Services (Service Category Code S216). Our audit included the following steps.

- Determine whether contracting officers officially designated CORs in writing to monitor contractor performance. Also, determine whether contracting officers are involved in monitoring contractor performance including the review of contractor vouchers.
- Determine how the Government performed surveillance on contract actions selected for review and whether the surveillance was adequate.
- Determine whether the Government was properly recording past performance information for future use.

We performed these steps by:

- reviewing contract and surveillance documentation such as basic contracts and their task orders or modifications, COR and task monitor designation letters, statements of work, surveillance plans, time sheets, vouchers, and Performance Assessment Reports;
- meeting with contract and program office personnel, CORs, and task monitors;
- meeting with DCAA and DCMA officials to discuss their respective roles in the contract surveillance process;
- meeting with an Under Secretary of Defense for Acquisition, Technology and Logistics official to discuss an October 2001 Deputy Under Secretary of Defense memorandum regarding public vouchers; and
- coordinating with the Coalition Provisional Authority Inspector General in Baghdad, Iraq, to conduct site visits for contracts where work is being completed in Iraq.

The audit was conducted by visiting the following sites: the Defense Contract Command–Washington in Arlington, Virginia; the U.S. Army Intelligence and Security Command at Fort Belvoir, Virginia; the U.S. Army Aviation and Missile

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Command at Redstone Arsenal, Alabama; the U.S. Army Corps of Engineers Engineering and Support Center in Huntsville, Alabama; the Naval Sea Systems Command in Arlington, Virginia; the Defense Information Technology Contracting Office at Scott Air Force Base, Illinois; the Fleet and Industrial Supply Center in Philadelphia, Pennsylvania; the Naval Air Systems Command in Patuxent River, Maryland; the Electronic Systems Center at Hanscom Air Force Base, Massachusetts; and the Materiel Systems Group and Aeronautical Systems Center at Wright-Patterson Air Force Base, Ohio. The Coalition Provisional Authority Inspector General performed field work at the U.S. Army Corps of Engineers Camp Victory, Iraq; U.S. Army Corps of Engineers Arlington Depot, Iraq; and U.S. Army Corps of Engineers Paladin Depot, Iraq.

We performed this audit from May 2004 through July 2005 in accordance with generally accepted Government auditing standards.

**Limitation of Scope.** We did not validate the extent of voucher reviews for U.S. Army Aviation and Missile Command contracts DAAH01-03-C-0042, DAAH23-00-C-0030, and DAAH23-00-C-0226; Aeronautical Systems Center contract F33657-01-C-5063, modification P00031; and Naval Air Systems Command contract N00019-00-C-0183. This information was not validated because we were unable to perform site visits and meet with designated surveillance personnel and DCMA officials prior to completion of the field work.

**Use of Computer-Processed Data.** Although we relied on data retrieved from the Defense Contract Acquisition Reporting System during the audit, we did not evaluate the general and application controls relating to this information system that processes contract reports. We used the Defense Contract Acquisition Reporting System only as a starting point to obtain the universe data and contract actions selected. Therefore, we did not evaluate the controls.

**Government Accountability Office High-Risk Area.** The Government Accountability Office has identified several high-risk areas in DoD. This report provides coverage of the “DoD Contract Management” high-risk area.

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## Appendix B. Prior Coverage

During the last 5 years, the Government Accountability Office (GAO), the Department of Defense Inspector General (DoD IG), the Army Audit Agency (AAA), the Naval Audit Service (NAS), and the Air Force Audit Agency (AFAA) have issued 20 reports discussing contract surveillance of service contracts. Unrestricted GAO reports can be accessed over the Internet at <http://www.gao.gov>. Unrestricted DoD OIG reports can be accessed at <http://www.dodig.mil/audit/reports>.

### GAO

GAO Report No. GAO-05-274, “Opportunities to Improve Surveillance on Department of Defense Service Contracts,” March 17, 2005

### DoD IG

DoD IG Report No. D-2004-015, “Contracts for Professional, Administrative, and Management Support Services,” October 30, 2003

DoD IG Report No. D-2003-099, “Service Contracts at the National Imagery and Mapping Agency,” June 6, 2003

DoD IG Report No. D-2003-029, “Contract Actions Awarded to Small Businesses,” November 25, 2002

DoD IG Report No. D-2001-102, “Service Contracts at the National Security Agency,” April 17, 2001 (Confidential)

DoD IG Report No. D-2000-100, “Contracts for Professional, Administrative, and Management Support Services,” March 10, 2000

### Army

AAA Report No. A-2003-0362-IMT, “Contract Administration for the Directorate of Installation Support Contract,” July 29, 2003

AAA Report No. A-2003-0337-IMO, “Electrical Distribution System Contract,” June 27, 2003

AAA Report No. A-2003-0216-IMO, “Privatization of Utility Distribution System,” April 11, 2003

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AAA Report No. A-2002-0580-AMA, "Managing Service Contracts,"  
September 23, 2002

AAA Report No. A-2002-0477-IME, "Administering Service Contracts,"  
July 8, 2002

AAA Report No. AA-02-66, "Administering Service Contracts,"  
November 20, 2001

## **Navy**

NAS Report No. N2004-0031, "Service Contracts for Chartered Tugboats,"  
March 16, 2004

NAS Report No. N2003-0035, "Post Award Reviews for Navy Commercial  
Activity Studies Under OMB Circular A-76," March 14, 2003

## **Air Force**

AFAA Report No. F2004-0028-FDN000, "Custodial Service Contract,"  
March 17, 2004

AFAA Report No. F2004-0016-FDW000, "Janitorial Service Contract,"  
January 30, 2004

AFAA Report No. F2003-0004-FD300, "Task Force Enduring Look Contractor  
Support," June 16, 2003

AFAA Report No. F2003-0032-FBM-000, "Janitorial Service Contract,"  
May 19, 2003

AFAA Report No. F2002-044-WN000, "Service Contracting Quality Assurance  
Evaluation Program," August 27, 2002

AFAA Report No. 99064019, "Service Contracting Quality Assurance Evaluation  
Program," January 12, 2000

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## Appendix C. DCAA and DCMA Roles in Contract Surveillance

Contracting officers may enlist the services of both DCAA and DCMA for contract administration and surveillance purposes. Following is a discussion of the roles played by each agency in the surveillance process.

### DCAA Role in Contract Surveillance

DCAA operates under the direction, authority, and control of the Under Secretary of Defense (Comptroller)/Chief Financial Officer. DCAA consists of six major organizational components, including a Headquarters and five regions: Central, Eastern, Mid-Atlantic, Northeastern, and Western. DCAA Headquarters houses the Director, Deputy Director, Executive Officer, Special Assistant for Quality, General Counsel (Defense Legal Services), and the Assistant Directors for Operations, Policy and Plans, and Resources. Within each region are resident and branch offices. Resident offices are established at large defense contractor locations, and branches are established in major metropolitan areas to audit all other contractors on a mobile basis. DCAA has the authority to review and approve payment of contractors' claims (vouchers) under cost-reimbursement, time-and-materials, and labor-hour contracts as set forth in DoD Directive No. 5105.36 and implemented in FAR 42.803(b) and DFARS 242.803(b).

DCAA determines the type and frequency of audits based on contractor risk. Contractor risk is determined by factors such as contractor size, organization and ownership characteristics, nature of business, complexity of operations, and the status of its business systems and related internal controls. In addition, DCAA uses the contractor's auditable dollar value to assess risk and designate contractors as either a major contractor or nonmajor contractor. Contractors with an auditable dollar value greater than \$90.0 million are major contractors, and contractors with an auditable dollar value of less than \$90.0 million are nonmajor contractors. Special audit guidelines exist for low risk nonmajor contractors with an auditable dollar value less than \$15.0 million.

The following audits or reviews are necessary for contract oversight at most contractors:

- incurred cost audits,
- labor floor checks and interviews,
- annual testing of paid vouchers, and
- internal control audits.

**Incurred Cost Audits.** An incurred cost audit examines the contractor's cost representations (for example, interim and final public vouchers, progress

payments, incurred cost submissions, termination claims, and final overhead claims) to determine if the incurred costs are allowable, reasonable, and allocable to the contract. In addition, the auditor determines whether the accounting system is adequate for subsequent cost determinations, which may be required for current or future contracts. DCAA performs incurred cost audits on incurred cost proposals submitted by the contractor. Contractors submit their cost proposals within 6 months of the contractor's fiscal year-end, and DCAA has 1 year following submission to complete the audit for major contractors and 2 years following submission to complete the audit for nonmajor contractors. DCAA performs incurred cost audits annually on all major contractors and nonmajor contractors with an auditable dollar value greater than \$15.0 million. DCAA performs annual incurred cost audits on nonmajor contractors with an auditable dollar value less than \$15.0 million unless the contractors are designated as low-risk. For low-risk contractors with auditable dollar value less than \$15.0 million, audits are performed statistically at least every 3 years. The following table contains the DCAA model of an incurred cost proposal.

<b>Model Incurred Cost Proposal</b>	
<u>Schedule</u>	<u>Title</u>
Schedule A	Summary of Claimed Indirect Expense Rates
Schedule B	General and Administrative (G&A) Expenses (Final Indirect Cost Pool)
Schedule C	Overhead Expenses (Final Indirect Cost Pool)
Schedule D	Occupancy Expenses (Intermediate Indirect Cost Pool)
Schedule E	Claimed Allocation Bases
Schedule F	Facilities Capital Cost of Money Factors Computation
Schedule G	Reconciliation of Books of Account and Claimed Direct Costs
Schedule H	Schedule of Direct Costs by Contract/Subcontract and Indirect Expense Applied at Claimed Rates
Schedule H-1	Government Participation in Indirect Expense Pools
Schedule I	Schedule of Cumulative Direct and Indirect Costs Claimed and Billed
Schedule J	Subcontract Information
Schedule K	Summary of Hours and Amounts on Time and Material and Labor Hour Contracts
Schedule L	Reconciliation of Total Payroll to Total Labor Distribution
Schedule M	Listing of Decisions/Agreements/Approvals and Description of Accounting/Organizational Changes
Schedule N	Certificate of Final Indirect Costs
Schedule O	Contract Closing Information for Contracts Completed in this Fiscal Year

**Floor Checks and Interviews.** A floor check is an evaluation of the contractor's overall compliance with internal controls and labor accounting procedures to ensure reliability of employee time records and the resultant labor hours charged to contracts. A floor check also includes physical observations of work areas to

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determine that employees are actually at work, performing in their assigned job classification, and charging time to the appropriate job. Major contractors and, unless a reason is documented, nonmajor contractors with an auditable dollar value greater than \$15.0 million, receive a floor check on an annual basis. Nonmajor low-risk contractors with an auditable dollar value less than \$15.0 million have floor checks performed at least once every 3 years, depending on assessed risk.

**Annual Testing of Paid Vouchers.** The annual testing of paid vouchers determines if the contractor's voucher preparation procedures are adequate for the contractor's continued participation in the direct billing program. DCAA tests a random sample of paid vouchers recently submitted directly to Government paying offices. Each major contractor with direct billing is tested annually. DCAA selects nonmajor contractors annually on a sample basis to be tested.

**Internal Control Audit Planning Summary.** DCAA uses the Internal Control Audit Planning Summary to summarize the auditor's assessment of control risk as a basis for planning related audits, based on the audits of 10 separate internal control accounting and management systems. Two audits of specific interest are the labor system audit and the billing system audit. The labor system audit evaluates the adequacy of and the contractor's compliance with the labor system's internal controls. The objective is to assess control risk for the allowability and allocability of labor costs charged and billed to Government contracts. The billing system audit evaluates the adequacy of and the contractor's compliance with the billing system's internal controls. The contractor's billing system should provide reasonable assurance that billings applicable to Government contracts are prepared in accordance with applicable laws and regulations and contract terms, and that material misstatements are prevented, or detected and corrected in a timely manner. DCAA performs internal control system audits for each contractor on a cyclical basis of 2 to 4 years based on a documented risk assessment.

**DCAA Direct Billing.** A contractor who maintains adequate billing system internal controls, and submits timely incurred cost proposals and final vouchers in accordance with the FAR 52.216-7, "Allowable Cost and Payment," contract clause, may be eligible to submit interim public vouchers directly to certain Government paying offices rather than submitting each voucher to DCAA for provisional approval. The elimination of provisional approval on each voucher reduces payment cycle time and processing costs. DCAA bases continued participation in the direct billing program on the results of ongoing surveillance of billing systems, or the annual paid voucher review. DCAA may rescind direct billing if:

- an audit report shows significant internal control deficiencies;
- a DCAA Form 1, "Notice of Contract Costs Suspended and/or Disapproved," is prepared;
- the contractor fails to apply approved billing system procedures in preparing vouchers for direct billing;

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- the contractor fails to submit an incurred cost proposal in a timely manner; or
  - the contractor fails to submit a final voucher in a timely manner.

DCAA will immediately notify a contractor of a decision to withdraw its direct billing authority. DCAA will also notify the contracting officer and paying office within 24 hours of notifying the contractor.

## **DCMA Role in Contract Surveillance**

DCMA operates under the authority and direction of the Under Secretary of Defense for Acquisition, Technology, and Logistics. DCMA is divided into a Headquarters and three districts: District East, District West, and District International. The Headquarters houses the Office of the Director, Office of the Deputy Director, and the directors of each division located within the organization. The three districts are broken into 47 field offices. Each field office receives assignments based on its proximity to the location where the work is performed. DCMA is the DoD Component that works directly with Defense suppliers to help ensure that DoD, Federal, and allied government supplies and services are delivered on time, at projected cost, and meet all performance requirements.

Contracting officers have the authority to delegate contract administration services to DCMA. The contracting officer may delegate all contract administration functions as listed in FAR Part 42.302, or they may retain some contract administration functions by imposing limitations on the duties delegated to DCMA. Often, contracting offices will enlist the help of DCMA to either support the designated COR, or to perform all contract administration functions when the contract office is short-staffed. DCMA may also be designated when they are more conveniently located to the contract work site.

DCMA relies on DCAA audit reports to support risk assessments on contractors. DCMA assigns risk assessments to performance, schedule, and cost areas. Generally, the higher the level of risk, the greater the amount of oversight that is required in each area to ensure that the Government receives the best value for the services contracted.

## Appendix D. Summary of Problems

Item no.	<u>Contract</u>	Nonexistent Surveillance <u>Plan</u>	Inadequate Surveillance <u>Plan</u>	Cursory or Nonexistent <u>Voucher Review</u>	Non-DCAA <u>Voucher Review</u>	Inadequate Recording of Past Performance	Nonuse of Performance Based <u>Contracting</u>
	<b>Army</b>						
1	DAAH01-03-C-0042		•		•		
2	DAAH23-00-C-0030	•			•	•	•
3	DAAH23-00-C-0226	•				•	•
4	DACA87-00-D-0036/0019		•		•	•	•
5	DACA87-00-D-0037/0033		•		•	•	•
6	DACA87-00-D-0038/0035		•		•	•	•
7	DACA87-00-D-0039/0008		•		•	•	•
8	DASC01-02-D-0002/0040	•		•		•	•
9	DASW01-98-D-0032/0147	•		•		•	•
10	DASW01-98-D-0032/0158	•		•		•	•
	<b>Navy</b>						
11	N00019-00-C-0183	•			•		•
12	N00019-03-C-0041			•		•	
13	N00024-00-D-6000		•		•		
14	N00140-01-C-E403	•		•			•
15	N00140-03-D-H011	•		•	•	•	•
	<b>Air Force</b>						
16	F19650-02-D-0010/000101			•			
17	F33601-00-D-P002/5073				•		
18	F33657-01-C-5063/P00031	•				•	•
19	FA8770-01-C-0020/P00025	•		•			•
	<b>Defense Agency</b>						
20	DCA200-00-D-5013/0016	•		•	•	•	•
21	DCA200-00-D-5014/0007	•		•	•	•	•
22	DCA200-02-D-5001/0004	•		•			•
23	DCA200-02-D-5006/0017	•		•	•		•
	<b>TOTAL:</b>	<b>14</b>	<b>6</b>	<b>12</b>	<b>13</b>	<b>10</b>	<b>18</b>

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## **Appendix E. Report Distribution**

### **Office of the Secretary of Defense**

Under Secretary of Defense for Acquisition, Technology, and Logistics  
  Director, Acquisition Resources and Analysis  
  Director, Defense Procurement and Acquisition Policy  
Under Secretary of Defense (Comptroller)/Chief Financial Officer  
  Deputy Chief Financial Officer  
  Deputy Comptroller (Program/Budget)  
  Director, Program Analysis and Evaluation

### **Department of the Army**

Assistant Secretary of the Army (Financial Management and Comptroller)  
Auditor General, Department of the Army  
Commander, U.S. Army Corps of Engineers, Engineering and Support Center, Huntsville

### **Department of the Navy**

Assistant Secretary of the Navy (Manpower and Reserve Affairs)  
Naval Inspector General  
Auditor General, Department of the Navy

### **Department of the Air Force**

Assistant Secretary of the Air Force (Financial Management and Comptroller)  
Auditor General, Department of the Air Force

### **Other Defense Organizations**

Director, Defense Contract Audit Agency  
Director, Defense Information Systems Agency  
Director, Defense Contract Management Agency  
Chief, Defense Information Technology Contracting Organization

### **Non-Defense Federal Organization**

Office of Management and Budget

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## **Congressional Committees and Subcommittees, Chairman and Ranking Minority Member**

Senate Committee on Appropriations

Senate Subcommittee on Defense, Committee on Appropriations

Senate Committee on Armed Services

Senate Committee on Homeland Security and Governmental Affairs

House Committee on Appropriations

House Subcommittee on Defense, Committee on Appropriations

House Committee on Armed Services

House Committee on Government Reform

House Subcommittee on Government Efficiency and Financial Management, Committee on Government Reform

House Subcommittee on National Security, Emerging Threats, and International Relations, Committee on Government Reform

House Subcommittee on Technology, Information Policy, Intergovernmental Relations, and the Census, Committee on Government Reform



# Undersecretary of Defense for Acquisition, Technology, and Logistics Comments

Final Report  
Reference



ACQUISITION,  
TECHNOLOGY  
AND LOGISTICS

OFFICE OF THE UNDER SECRETARY OF DEFENSE  
3000 DEFENSE PENTAGON  
WASHINGTON, DC 20301-3000

SEP 28 2005

MEMORANDUM FOR DEPUTY INSPECTOR GENERAL FOR AUDITING,  
PROGRAM DIRECTOR, CONTRACT  
MANAGEMENT, OFFICE OF THE INSPECTOR  
GENERAL, DEPARTMENT OF DEFENSE

THROUGH: DIRECTOR, ACQUISITION RESOURCES AND ANALYSIS *NSA/29/05*

SUBJECT: DoDIG Draft Report on Audit of Contract Surveillance for Service Contracts  
dated September, 2005 (Project No. D2004-D000CF-0140.000)

As requested, we are providing responses to the content and recommendations  
contained in the subject report.

**General Content:**

We appreciate the efforts made by your staff to work with my office in assuring  
that the content of the report is factually accurate. However, we have two major concerns  
to be resolved regarding the content of the revised report:

**1. Table 2, Page 14:**

This table is misleading. In particular, the table and subsequent explanatory  
paragraphs confuse the concepts and responsibilities associated with the prepayment  
review of vouchers with those associated with program monitoring and surveillance that  
would typically occur during post-payment analysis. As a result, the table mixes findings  
on who performed the prepayment review with findings on the quality of the  
surveillance/monitoring activities of the Contracting Officer, COR, Technical Monitor, or  
DCMA. For example, the table classifies six contracts with direct pay authority as  
having "Cursory voucher reviews," and one contract with direct pay authority as having  
"Nonexistent voucher reviews." The direct billing program (*i.e.* direct pay) was  
established to conserve Government resources by significantly reducing the prepayment  
review of invoices from contractors who have demonstrated an adequate billing system  
and internal controls. Thus, categorizing the six contracts as having "cursory voucher  
reviews" infers that despite DCAA's authorization of a contractor to direct bill, resources  
should still be spent in additional prepayment effort by other agencies or contracting  
officers. This would completely defeat the purpose of the direct billing program. DCAA



Deleted  
page 13

limits the review and approval of these vouchers because the risk of overstatement of costs in interim vouchers from such contractors is insignificant. Accordingly, we recommend that the column entitled "Direct Pay Submission" be deleted from the table and the numbers/percentages in the report be revised to reflect this deletion. In addition, the table notes that DCAA performed a cursory review of one contract voucher. DCAA's process for reviewing vouchers is described on page 6 (DCAA Contractor Voucher Reviews) of the draft report. That review process is supplemented by additional steps based on a contractor's system deficiencies and history of voucher errors/inadequacies. Such a level of review is entirely appropriate in the prepayment mode. Inclusion of the "DCAA" column in the table again inappropriately compares levels of prepayment and post-payment review and only further confuses the issues. The "DCAA" column should also be deleted from the table.

**2. Voucher Approval Procedures, Page 20.**

The report states that "...officials were unclear on their responsibilities regarding voucher reviews due to an October 2, 2001, memorandum issued by the Principal Deputy Under Secretary of Defense entitled 'Public Vouchers'." The memorandum stated that DCAA has the authority and responsibility for audit examination and approval of vouchers. The October 2, 2001, memorandum clearly states that DCAA has the authority for approval of vouchers. Therefore, we do not agree that this memorandum caused officials to be "unclear on their responsibilities regarding voucher reviews." In fact, at several major DoD contractor locations, this memorandum resulted in the reduction of duplicate contractor data submissions that were being required by DoD contracting personnel, thereby saving the contractor and DoD significant monies. We recommend you withdraw this comment from the report.

**Recommendations:**

***DoDIG Recommendation #1a:*** The Under Secretary of Defense for Acquisition, Technology and Logistics should emphasize to senior contracting officials and program managers the requirement to develop quality assurance surveillance plans for monitoring contractor performance and costs of service contracts. The plans must be prepared in conjunction with the preparation of the statement of work and must specify all work requiring surveillance. The plan should include coordination with DCAA to ensure surveillance activities involving contract costs, such as floor checks, will be performed to the extent and frequency deemed necessary.

***DPAP Response:*** Concur in part. Defense Acquisition University (DAU) developed an extensive module on quality assurance surveillance plans (QASPs) to be added to the DAWIA Level II Contracting Courses. Also, we will work with DAU to include QASP

training in their new on-line training for Contracting Officer Technical Representatives (COTRs) in addition to the basic COTR training module available online today, and the existing classroom COTR training. This is scheduled for 2<sup>nd</sup> quarter of FY06. In regards to surveillance activities involving contract costs, guidance will be issued that emphasizes the need for contracting personnel to contact DCAA during contract performance when surveillance activities involving contract costs, such as floor checks, are needed. However, it is not efficient or practical to require contracting personnel to contact DCAA each and every time a QASP is developed. DCAA personnel are available to assist during contract performance when requested by the contracting officer. Thus, when contracting personnel identify a need for DCAA assistance during contract performance, such assistance should be requested at that time, rather than requiring coordinating upfront on each and every contract.

**DoDIG Recommendation #1b:** The Under Secretary of Defense for Acquisition, Technology and Logistics should ensure that program office officials are sufficiently trained on the preparation of quality assurance surveillance plans for service contracts that emphasize the use of metrics for measuring contractor performance.

**DPAP Response:** Concur. Defense Acquisition University (DAU) developed an extensive module on quality assurance surveillance plans (QASPs) to be added to the DAWIA Level II Contracting Courses. Also, we will work with DAU to include QASP training in their new on-line training for Contracting Officer Technical Representatives (COTRs) in addition to the basic COTR training module available online today, and the existing classroom COTR training. This is scheduled for 2<sup>nd</sup> quarter of FY06.

**DoDIG Recommendation #1c:** To avoid any duplication of effort, the Under Secretary of Defense for Acquisition, Technology and Logistics should ensure that contract and program office personnel coordinate with the DCAA office that has responsibility for voucher review for all cost-reimbursable and time-and-materials service contracts.

**DPAP Response:** Concur in part. Defense Policy and Acquisition Policy (DPAP) will issue guidance in the Defense Federal Acquisition Regulation Supplement (DFARS), Procedures, Guidance and Information (PGI) that defines the roles and responsibilities of contract administration personnel, program office personnel, and DCAA. As part of these roles and responsibilities, contract and program office personnel will be instructed to coordinate with DCAA if they identify any issues involving costs submitted on public vouchers. This is scheduled for 2<sup>nd</sup> quarter of FY06.

**DoDIG Recommendation #1d:** The Under Secretary of Defense for Acquisition, Technology and Logistics should issue a policy that clearly defines the roles and

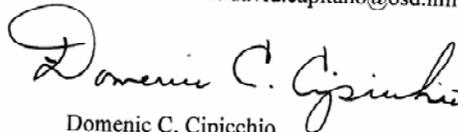
responsibilities of contract personnel to include (1) Monitoring contractor performance, and (2) Reviewing and approving interim contractor vouchers.

**DPAP Response:** Concur. DPAP will issue guidance in the DFARS PGI that clearly defines the roles and responsibilities of contract personnel regarding the review/approval of interim vouchers and the use of vouchers in monitoring contractor performance. This is scheduled for the 2<sup>nd</sup> quarter of FY06.

**DoDIG Recommendation #1e:** The Under Secretary of Defense for Acquisition, Technology, and Logistics should establish a requirement that contracting officers clearly define the roles and responsibilities of contract administration personnel within the contract Section G "Contract Administration Data," to include (1) Contract and program office personnel responsible for monitoring contractor performance, (2) Personnel responsible for auditing contractor systems and costs, and reviewing and approving interim contractor vouchers, and (3) Other DoD organizations including the Defense Contract Audit Agency and the Defense Contract Management Agency.

**DPAP Response:** Concur in part. FAR 14.201-2 and 15.204-2 requires Section G, "Contract Administration Data" to include any required accounting and appropriation data and any required contract administration information or instructions other than those on the solicitation form. As noted in our response to recommendation 1d, we agree to issue DoD guidance to contracting personnel in the DFARS PGI that defines the roles and responsibilities of contracting personnel. It would be duplicative and inefficient to also require that these roles and responsibilities be defined again in each and every contract. However, if and when a deviation from the guidance is permitted (the guidance will define such circumstances), contracting officers will be required to define the roles and responsibilities in Section G of the contract.

If you have questions regarding this memorandum please contact my points of contact Mr. David Capitano, at 703-847-7486 or e-mail at david.capitano@osd.mil.



Domenic C. Cipicchio  
Acting Director, Defense Procurement  
and Acquisition Policy

# Department of the Navy Comments

Final Report  
Reference



**DEPARTMENT OF THE NAVY**  
OFFICE OF THE ASSISTANT SECRETARY  
RESEARCH, DEVELOPMENT AND ACQUISITION  
1000 NAVY PENTAGON  
WASHINGTON DC 20350-1000

**AUG 23 2005**

MEMORANDUM FOR THE DEPUTY INSPECTOR GENERAL FOR AUDITING,  
DOD INSPECTOR GENERAL

Subj: DRAFT REPORT ON AUDIT OF CONTRACT SURVEILLANCE FOR SERVICE  
CONTRACTS

Ref: (a) DoDIG Draft Audit of Contract Surveillance for Service  
Contracts (Project NO. D2004-D000CF-0140.000) dtd  
July 25, 2005

Encl: (1) Statement of Facts on Draft Audit Report  
(2) DoN Response to Recommendation #2

Reference (a) addresses diverse areas of contract surveillance for services contracts. Enclosure (1) addresses statements of Fact in the draft report and Enclosure (2) provides the DoN response to Recommendation #2 of the draft report.

A handwritten signature in black ink, appearing to read "M. F. Jaggard".

M. F. JAGGARD  
Chief of Staff/Policy for  
Deputy Assistant Secretary of the Navy  
(Acquisition Management)

**Statement of Facts on Draft Audit Report**

The following comments are provided in response to the Draft Audit report discussion and the Appendix D Summary of Problems:

**N00019-00-C-0183/P00031:** The contract is a Fixed-Price/ Incentive-Fee supply contract (FSC 1510) for the production and delivery of 16 V-22 aircraft and 4 CV-22 Aircraft. It should be deleted from the report.

**N00019-03-C-0041** is a Cost-Plus-Incentive-Fee/Award-Fee contract with Fixed-Price-Incentive options for FA-18E/F Integrated Logistics Support.

- Invoice Review: The contract contains provisions for direct invoicing to DFAS as part of the DCAA Direct Submission program. As indicated on page 6 of the draft report, when contractors are authorized to submit invoices directly to DFAS for payment, there are no requirements for invoice reviews.
- Contractor Past Performance: The contract was awarded in May 2003 and entered into the Contractor Performance Assessment Reporting System in July 2003.

**N00024-00-D-6000** is the Navy-Marine Corps Intranet (NMCI) contract. The NMCI contract was transferred to the Space and Naval Warfare Systems Command (SPAWAR) for post-award administration. We recommend that your office work with the Space and Naval Warfare Systems Command to assess NMCI contract surveillance.

**N00140-01-C-E403** is for technical support/training in afloat and deployable automated supply management for designated Department of the Navy activities. The customer is the Deputy Commander for Fleet Operations, Naval Supply Systems Command.

- At time of requirement definition and contract placement, required efforts could not be adequately defined to allow use of a performance-based contract.
- Contract contains a Contract Administration Plan that delineates contract surveillance provisions.
- The Contract Administration Plan delineates comprehensive invoice review provisions/procedures. The contracting officer will work with the customer to provide appropriate training for assigned CORs.

Enclosure (1)

**Statement of Facts on Draft Audit Report**

**N00140-03-D-H011** provides program management support for the United States Joint Forces Command, Norfolk, VA.

- At time of requirement definition and contract placement, required efforts could not be adequately defined to allow use of a performance-based contract.
- Contract contains a Contract Administration Plan that delineates contract surveillance provisions.
- The Contract Administration Plan delineates comprehensive invoice review provisions/ procedures. The contracting office will work with the customer to provide roles/responsibilities training for assigned CORs.
- The contracting officer will work with customer to ensure that contractor performance is entered into Contractor Performance Assessment Reporting System (CPARS).

Enclosure (1)

**DoN Response to Recommendation #2 DoDIG Draft Report on  
Audit of Contract Surveillance for Service Contracts**

The following comments are provided in response to  
Recommendation #2:

2. We recommend that the Acquisition Executives for the Army, the  
Navy and the Air Force, and the Director, Defense Information  
Systems Agency:

- a. Ensure that program office personnel receive training on  
the preparation of quality assurance surveillance plans  
that include metrics for measuring contractor performance,  
when contracting for services.

Concur. The requirement for training in performance-based  
procedures for the acquisition of services is addressed in the  
DoN Performance Based Service Acquisition Implementation Plan  
(PBSA Implementation Plan). We will reiterate the training  
requirements to ensure that members of acquisition teams complete  
PBSA training prior to expending effort to define the  
requirement, develop an acquisition strategy, or prepare the  
statement of objectives.

- b. Develop and employ management controls to ensure that  
surveillance duties and responsibilities are adequately  
performed and documented, including the recording and  
input of past performance information into past  
performance information systems in a timely basis.

Concur. We will develop management controls to ensure that  
contract surveillance, including recording and entering past  
performance data, is properly completed.

Enclosure (2)

# Department of the Air Force Comments

Final Report  
Reference



OFFICE OF THE ASSISTANT SECRETARY

DEPARTMENT OF THE AIR FORCE  
WASHINGTON, DC

19 AUG 2005

MEMORANDUM FOR ASSISTANT INSPECTOR GENERAL FOR AUDITING  
OFFICE OF THE INSPECTOR GENERAL  
DEPARTMENT OF DEFENSE

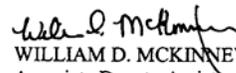
FROM: SAF/AQC  
1060 Air Force Pentagon  
Washington, DC 20330-1060

SUBJECT: Report on Audit of Contract Surveillance for Service Contracts (Project No. D2004-D000CF-0140.000)

This is in reply to your memorandum requesting the Assistant Secretary of the Air Force (Financial Management and Comptroller) to provide Air Force comments on subject report. We appreciate the opportunity to respond and the following are our comments to the draft report:

- a. Report overall – Concur.
- b. Recommendation 1. – Since this recommendation was directed to OUSD (AT&L), we have no comments or objections as written.
- c. Recommendation 2a – Concur. We recommend the term “program office personnel” be replaced with “requirements personnel”. Operational units, which are the majority of Air Force organizations, do not have program offices. In addition, the Air Force will be relying on Defense Acquisition University (DAU) as the provider for the required training. We understand DAU is currently developing a new course, ACQ 265 Mission Focused Service Acquisition, which will include QASP training.
- d. Recommendation 2b – Concur. The Air Force recently implemented revised surveillance duties and controls within our Air Force Acquisition Regulation Supplement. We already have a surveillance system for the recording and input of past performance information into the past performance information system.

My point of contact for services is Greg Snyder, [gregory.snyder@pentagon.af.mil](mailto:gregory.snyder@pentagon.af.mil), 703-588-7058.

  
WILLIAM D. MCKINNEY, COL, USAF  
Associate Deputy Assistant  
Secretary (Contracting)  
Assistant Secretary (Acquisition)

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# Defense Information Systems Agency Comments

Final Report  
Reference

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INTEROFFICE MEMORANDUM

TO: Inspector General (IG)

FROM: Procurement and Logistics Directorate (PLD)

DATE: 22 August 2005

SUBJECT: Draft Of A Proposed Report: Audit of Contract Surveillance for Service  
Contracts (Project No. D2004-D000CF-0140.000)

Reference: Inspector General (IG) ACN: 05-002803

Enclosure: Response to draft proposed report: Audit of Contract Surveillance for  
Service Contracts (Project No. D2004-D000CF-0140.000)

Preparer: Doris Mayo/PL22/703-681-0295

1. In response to the reference, the Procurement and Logistics Directorate (PLD) concurs with the subject draft audit report findings and recommendations.
2. Enclosure (1) reflects our discussion and concurrence to the Department of Defense's (DoD) recommendations.



1 Enclosure a/s

EVELYN M. DEPALMA  
Director for Procurement and Logistics  
Chief, Defense Information Technology  
Contracting Organization

**Response to Draft Proposed Report  
Audit of Contract Surveillance for Service Contracts  
Project No. D2004-D000CF-0140.000**

**DoD Recommendations:** We recommend that the Acquisition Executives for the Army, the Navy, and the Air Force, and the Director, Defense Information Systems Agency:

- a. Ensure that program office personnel receive training on the preparation of quality assurance surveillance plans that include metrics for measuring contractor performance, when contracting for services.

**Concur:** Defense Information Systems Agency (DISA) concurs with the recommendation; therefore, we will ensure our program and contracting personnel receive appropriate training when and how to prepare quality assurance surveillance plans including the use of metrics for measuring and assessing contractor performance when contracting for services. Additionally, DISA's Component Acquisition Executive (CAE) Guideline #1 Acquisition of Services was published, July 2005. This recent guidance will also be a training source for program and contracting personnel.

**DISCUSSION:** We also concur with the report that stated, "Because guidance was either lacking or unclear, contracting and requiring activity personnel did not prepare QASPs..." "Contracting officials were unclear on the requirements for a QASP when contracting for services."

For example, FAR Subpart 37.6, Performance-Based Contracting clearly identifies the requirements for QASPs under a specific and distinct FAR section - 37.602-2 titled Quality Assurance; thereby, distinguishing its importance. The section also states that the plans must contain measurable inspection and acceptance criteria.

Conversely, there is no specific or distinct section within FAR Subpart 46 that addresses QASPs, but rather it is embedded under section 46.401 General. Furthermore, this section (FAR 46.401) is silent on the requirement for the plans to contain measurable inspections and acceptance criteria as identified above.

We believe that effective contractor oversight is paramount, but our confusion has resulted in inconsistent application and the use of QASP for service contracts. We recommend clarity to the regulation.

Enclosure (1)

**b. Develop and employ management controls to ensure that surveillance duties and responsibilities are adequately performed and documented, including the recording and input of past performance information into past performance information systems on a timely basis.**

**Concur:** DISA concurs with the recommendation and will ensure adequate surveillance of contractor performance and that contractors' past performance is properly documented. The following will enhance existing management controls:

(1) Management Control Program (MCP): The above elements will be added to our internal management control plans, evaluated throughout the year, and reported under the Management Control Program as delineated in OMB Circular A-123, Management's Responsibility for Internal Control.

(2) Procurement Management Reviews (PMRs): the requirements of FAR 42.15 Contractor Performance Information and FAR 37.6, Performance-Based Contracting are assessed and evaluated during conducting our internal PMRs of our contracting organizations. The requirements of FAR 46, which addresses QASPs, will be added as an element to evaluate during our internal PMRs.

(3) Designation of Contracting Officer's Representative (COR): DISA's COR designations letters are being revised to ensure more comprehensive understanding of a COR's roles and responsibilities. Some examples of what has been incorporated in the designation letter are the following: (1) performance and acceptance using the DoD Wide Area Workflow-Receiving and Acceptance (WAEF-RA) application; (2) promptly rejected, orally and in writing all work that does not comply with contract requirements, and (3) the review and execution of QASPs to ensure DISA does not receive substandard services.

## **Team Members**

The Department of Defense Office of the Deputy Inspector General for Auditing, Contract Management prepared this report. Personnel of the Department of Defense Office of Inspector General who contributed to the report are listed below.

Terry L. McKinney  
Timothy E. Moore  
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