

# Inspector General

United States  
Department of Defense



Task Orders on the Air Force Network-Centric  
Solutions Contract

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### **Acronyms**

COR	Contracting Officer Representative
EDA	Electronic Document Access
ELSG	Electronic Systems Group
FAR	Federal Acquisition Regulation
FPDS-NG	Federal-Procurement Data System-Next Generation
GSA	General Services Administration
IA	Information Assurance
IT	Information Technology
NETCENTS	Network-Centric Solutions
NSTISSP	National Security Telecommunications and Information Systems Security Policy
PMO	Program Management Office
QASP	Quality Assurance Surveillance Plan



INSPECTOR GENERAL  
DEPARTMENT OF DEFENSE  
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October 25, 2007

MEMORANDUM FOR UNDER SECRETARY OF DEFENSE FOR ACQUISITION,  
TECHNOLOGY, AND LOGISTICS  
AUDITOR GENERAL, DEPARTMENT OF THE ARMY  
NAVAL INSPECTOR GENERAL  
ASSISTANT SECRETARY OF THE AIR FORCE  
(FINANCIAL MANAGEMENT AND COMPTROLLER)

SUBJECT: Report on Task Orders on the Air Force Network-Centric Solutions Contract  
(Report No. D-2008-007)

We are providing this report for information and use. We considered management comments on a draft of this report in preparing the final report.

Comments on the draft of this report conformed to the requirements of DoD Directive 7650.3 and left no unresolved issues. Therefore, no additional comments are required.

We appreciate the courtesies extended to the staff. Questions should be directed to Ms. Jacqueline L. Wiccarver at (703) 604-9201 (DSN 664-9201) or Mr. Daniel S. Battitori at (703) 604-9012 (DSN 664-9012). The team members are listed inside the back cover. See Appendix E for the report distribution.

By direction of the Deputy Inspector General for Auditing:

A handwritten signature in black ink, appearing to read "Richard B. Jolliffe", is positioned above the printed name.

Richard B. Jolliffe  
Assistant Inspector General  
Acquisition and Contract Management



## Department of Defense Office of Inspector General

Report No. D-2008-007

October 25, 2007

(Project No. D2007-D000AS-0074.000)

### Task Orders on the Air Force Network-Centric Solutions Contract

#### Executive Summary

**Who Should Read This Report and Why?** People responsible for or involved in the implementation and execution of multiple-award, indefinite-delivery, indefinite-quantity contracts should read this report. The report addresses contracting, information assurance, small business, and oversight issues that require management attention to ensure Government contracts are sufficiently planned and implemented. Specifically, we reviewed the task orders that have been issued from this contract.

**Background.** This report is the second report concerning the Air Force Network-Centric Solutions (NETCENTS) contract. The Air Force NETCENTS contract is a multiple-award, indefinite-delivery, indefinite-quantity contract for products, services, and total solutions. It has a \$9 billion order ceiling and a base contract term of 3 years with two 1-year options. The contract provides the Air Force, DoD, and other Federal agencies a primary source of networking equipment and system engineering, installation, integration, operations, and maintenance. The Air Force Chief Information Office issued an action memorandum stating the Air Force is required to use the NETCENTS contract for all networking and information technology products and service requirements.

We initiated the audit based on a request from the Assistant Secretary of Defense for Networks and Information Integration/DoD Chief Information Officer to determine whether the NETCENTS contract contained contracting and information assurance requirements.

**Results.** During the audit of the Air Force NETCENTS contract, we identified the following:

- The NETCENTS Program Management Office (PMO) did not have adequate controls over the decentralized ordering process. As a result, we projected the following systemic issues in our universe of 1,312 decentralized task orders valued at approximately \$634 million:
  - 34 percent did not meet fair opportunity requirements;
  - 57 percent were not properly competed;
  - 14 percent did not adhere to information assurance requirements; and
  - 25 percent did not define how information assurance product capabilities would be used.

Of 303 decentralized service task orders, we projected that 84 percent were not adequately monitored. In addition, we identified modifications valued at \$139.4 million on four decentralized orders that improperly increased the scope or did not contain definitive order requirements. The Director, 754th Electronic Systems Group should develop an oversight program for the decentralized task orders. At a minimum, the oversight program should focus on best value, use of brand names, performance-based acquisition methods, monitoring, information assurance, and task order modifications; or centralize the task order process. In addition, the Director, 754th Electronic Systems Group should ensure task orders are competed among all NETCENTS contractors. See Finding A for the detailed recommendations.

- The NETCENTS PMO did not have adequate internal controls to track decentralized orders awarded from the NETCENTS contract or to ensure that all fees were being collected. As a result, the NETCENTS PMO decentralized tracking process did not account for 117 task orders or task order modifications awarded under the NETCENTS contract with an estimated value of \$27.4 million, recorded 800 incomplete orders, mislabeled at least 15 task orders as products or services, and misreported the value of at least 10 task orders by \$1.3 million. Therefore, the total value of NETCENTS task orders was unknown, and the NETCENTS PMO could not ensure that the contract ceiling was not exceeded. In addition, as of April 2007, the NETCENTS PMO had collected \$8.2 million in fees while its current decentralized tracking process indicated that \$16.3 million in fees should have been collected. The Director, 754th Electronic Systems Group should centrally record all NETCENTS orders and develop processes to track orders and fees owed. See Finding B for the detailed recommendations.
- DoD customers were paying the General Services Administration to place NETCENTS task orders instead of using DoD contracting offices. As a result, DoD wasted approximately \$607,000 in General Services Administration fees on 91 task orders and approximately 70 percent of these orders were awarded to one of the eight NETCENTS contractors. The Acquisition Executives of the Army, Navy, and Air Force should take administrative action against the DoD customers that did not go through DoD procurement channels and wasted money and the Director, Defense Procurement and Acquisition Policy should issue policy governing the use of assisted acquisitions when a non-DoD agency places an order for a DoD customer using a DoD contract. This policy should require justifications that identify these assisted acquisitions are in the best interest of the Government and that the costs for assisted acquisition services are reasonable given the benefits associated with using a non-DoD agency to perform contracting services. See Finding C for the detailed recommendations.

**Management Comments.** Management concurred with our findings and recommendations and were responsive to the issues we identified in our report. The Air Force intends to enhance the current oversight program for decentralized task orders to focus on best value, appropriate use of brand names, performance-based acquisition methods, monitoring, and information assurance. The Air Force agreed to modify the NETCENTS contract to address brand name concerns and remove the small business set-aside language to ensure that fair opportunity is given for all orders exceeding \$3,000. The Air Force also agreed to review and improve the oversight responsibilities to ensure that more accurate and complete accountability for usage fees is accomplished. The Army, Navy, and Air Force agreed to investigate the NETCENTS task orders placed by

the General Services Administration for organizations within their Services and take administrative action if necessary. The Under Secretary of Defense for Acquisition, Technology, and Logistics agreed to issue a policy memorandum on the use of assisted acquisitions when a non-DoD agency places an order for a DoD customer using a DoD contract. See the Finding sections of the report for a discussion of management comments and the Management Comments section of the report for complete text of the comments.

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## Background

This report is the second report concerning the Air Force Network-Centric Solutions (NETCENTS) contract and was initiated because of a management request. The Air Force NETCENTS contract is a multiple-award, indefinite-delivery, indefinite-quantity contract with a \$9 billion ordering ceiling. Four small businesses (Multimax, Telos, Centech, and NCI) and four large businesses (Northrop Grumman, General Dynamics, Lockheed Martin, and Booz Allen Hamilton) were awarded NETCENTS contracts in September 2004. The NETCENTS contract comprises eight contracts<sup>1</sup>—one for each prime contractor. The NETCENTS contract has a contract base of 3 years with two 1-year options. The purpose of the contract is to provide the Air Force, DoD Components, and other Federal agencies a primary source of networking equipment and system engineering, installation, integration, operations, and maintenance. As of May 2007, approximately 84 percent of the total task orders were for products, 10 percent for product and service solutions, and 6 percent for services. From September 2004 through May 25, 2007, approximately \$2.53 billion, or 28 percent of the \$9 billion ceiling, was awarded on NETCENTS orders.

The NETCENTS contract is centrally managed by the 754th Electronic Systems Group (ELSG) at the Maxwell Air Force Base-Gunter Annex in Montgomery, Alabama. However, the Air Force, other DoD Components, and other Federal agencies are authorized to place decentralized ordering. According to the *NETCENTS Ordering Guide*, the contract states that “decentralized ordering is permitted per the Air Force Federal Acquisition Regulation Supplement section 5316.505-90, ‘Decentralized Ordering,’ revised June 15, 2006.” As of FY 2006, approximately 94 percent of all task orders issued since the NETCENTS contract award were decentralized.

The Air Force Chief Information Officer issued an Action Memorandum, “Information Technology Purchasing - Network Centric Solutions,” on January 27, 2005. The memorandum states that the NETCENTS contract is the mandatory source for communications capabilities procured to satisfy Air Force appropriated fund requirements for information technology (IT) products and services associated with the design, engineering, integration, installation, and configuration of Air Force networks and networked infrastructure. The memorandum states that users may obtain a waiver by going through the Air Force major commands.

## Objective

Our overall audit objective was to determine whether task orders are consistent with the Network-Centric Solutions contract and Federal and DoD acquisition contracting policy, to include information assurance (IA) requirements. See Appendix A for a discussion of the scope and methodology related to the objective.

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<sup>1</sup> The eight NETCENTS contracts vary only by a few clauses. Therefore, we will refer to the eight contracts as the “NETCENTS contract.”

## **Review of Internal Controls**

We identified material internal control weaknesses for the NETCENTS contract and the 754th ELSG as defined by DoD Instruction 5010.40, "Managers' Internal Control (MIC) Procedures," January 4, 2006. DoD Instruction 5010.40 states that internal controls are the organization, policies, and procedures that help program and financial managers achieve results and safeguard the integrity of their programs. NETCENTS program officials did not have the following internal controls for contract administration and management procedures to ensure: decentralized orders were in accordance with Federal and DoD policy, that fees were properly collected, and that the contract value did not exceed the ceiling limit. Implementing Recommendations A.1. and B. will improve the current NETCENTS contract internal control procedures. In addition, the 754th ELSG does not have adequate procedures and controls in place to reasonably ensure that contracts comply with Federal small business policies. Implementing Recommendation A.2. will improve the 754th ELSG compliance with small business requirements. A copy of the final report will be provided to the Air Force senior officials responsible for internal controls for the NETCENTS contract and 754th ELSG small business procedures.

## A. Decentralized Task Order Oversight

The NETCENTS Program Management Office (PMO) did not have adequate controls over the decentralized ordering process. This occurred because the NETCENTS PMO did not provide centralized oversight in accordance with Air Force regulations, and the NETCENTS contract contained an inappropriate small business set-aside. As a result, out of a universe of:

- 1,312 decentralized task orders valued at approximately \$634 million, we projected<sup>2</sup> that:
  - 34 percent did not adhere to fair opportunity requirements,
  - 57 percent were not properly competed,
  - 14 percent did not adhere to IA requirements, and
  - 25 percent did not define how IA product capabilities would be used;
- 303 service and solution decentralized task orders valued at approximately \$374.9 million, we projected 84 percent were not adequately monitored; and
- 8 decentralized task orders<sup>3</sup> valued at \$151.1 million, 4 orders had modifications valued at \$139.5 million that improperly increased the scope or did not contain definitive order requirements.

### Air Force Federal Acquisition Regulation Supplement Policy

Air Force Federal Acquisition Regulation Supplement section 5316.505-90, “Decentralized Ordering,” states:

For contracts that authorize decentralized ordering (i.e., ordering by a contracting office at any other location), the contracting officer with overall responsibility for the contract shall:

(a) Ensure that adequate control procedures are in place before any orders are authorized; and

(b) Exercise oversight of decentralized ordering throughout the period of performance under the contract to ensure that the procedures are followed.

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<sup>2</sup> We statistically projected our audit results. See Appendix C for all the statistical sample projections.

<sup>3</sup> Eight decentralized task orders were judgmentally selected for review based on modifications that significantly increased the value above the original award amount (see Appendix A).

## **Oversight and Controls Over the Decentralized Task Orders**

This is the second report concerning the Air Force NETCENTS contract. In DoD Inspector General Report D-2007-106, “Air Force Network-Centric Solutions Contract,” June 29, 2007, we identified that the 754<sup>th</sup> ELSG had not developed an oversight program for \$1.25 billion of decentralized task orders as required by Air Force Federal Acquisition Regulation Supplement section 5316.505-90. The report identified that the 754<sup>th</sup> ELSG controls consisted only of the decentralized contracting officers, the ordering guide, and the contracts. The primary control was the decentralized contracting officers. Since there was no central oversight over the decentralized task orders, the audit team tested the effectiveness of this control in this audit. We developed a statistical sample of the decentralized task orders to determine whether the orders were in compliance with the contract as well as Federal and DoD contracting and IA requirements. Specifically, we assessed fair opportunity, competition, contracting officer qualifications, monitoring, and IA requirements (see Appendix B for review checklist and Appendix D for results).

### **Statistical Sample**

The NETCENTS PMO provided the audit team 4,398 NETCENTS task order entries. We excluded 2,258 entries (see Appendix A for explanation of the exclusions). We grouped the remaining 2,140 decentralized task orders into geographical clusters to determine locations with the highest concentration of task orders. Because of resource limitations, the audit team chose 6 clusters for a total of 1,312 task orders to statistically sample. We relied on the Office of Inspector General Quantitative Methods Directorate to randomly select a statistical sample of 90 products and 75 service and solution task orders for our review.

### **Fair Opportunity**

Federal Acquisition Regulation (FAR) Subpart 16.505, “Ordering,” states that “the contracting officer must provide each awardee a fair opportunity to be considered for each order exceeding \$3,000 issued under multiple delivery-order contracts or multiple task-order contracts.” The awardees in the NETCENTS contract included four small businesses and four large businesses that should have been solicited for every task order awarded.

A projected 34 percent of the 1,312 task orders did not meet fair opportunity requirements. Specifically, we identified decentralized contracting officers that limited competition to the four small businesses because of the set-aside developed in the overall contract. However, in DoD Inspector General Report D-2007-106, we reported that the NETCENTS contract small business set-aside was improper because the set-aside allocated 20 percent of orders to the small business contractors instead of following FAR procedure. FAR Subpart 19.5, “Set-Asides for Small Business,” states that “the contracting officer shall set aside an individual acquisition or class of acquisitions for competition among small business.” As a result, fair opportunity requirements were not met and there was

no guarantee that the DoD customers received the desired products or services for the best possible price due to the lack of additional competition. For example, at one site for two orders reviewed, the requiring activity obtained quotations from one of the “large” contractors in order to get a cost estimate for the order; however, the order was only solicited among the four small contractors. The quotations obtained from the large contractor in both cases were lower than the quotations submitted by the small businesses, but small business contractors were chosen for award in both cases.

## Competition

A projected 57 percent of the 1,312 decentralized task orders did not meet competition requirements. Specifically, we identified issues with best value decisions as well as brand naming in solicitations.

**Best Value Decision.** According to FAR Subpart 16.505, “the contracting officer shall document in the contract file the rationale for placement and price of each order, including the basis for award and the rationale for any tradeoffs among cost . . . and non-cost considerations in making the award decision.”

We identified decentralized contracting officers that did not document technical acceptance when required, document best value decisions, or choose the best value. As a result, we could not verify or guarantee that the best value was achieved for the products or services ordered for each task order. For example, one task order was awarded to a contractor that had a bid 54 percent higher than another bid. The award was supposedly based on cost, but the customer appeared to have a distinct preference for the incumbent contractor and stated the lower bid was “too cheap to be good.” Instead of requesting clarification on the customer concerns, the decentralized contracting officer chose the higher bid stating, “it was determined not to coach contractor A along and ask them for a new quote since contractor B had a cardinal knowledge as to what was required for installation as they won the last bid.”

**Brand Names.** The *NETCENTS Ordering Guide* prohibited using brand names without justification. In addition, FAR Subpart 11.105, “Items Peculiar to One Manufacturer,” states agency requirements shall not be written so as to require a particular brand name, product, or feature of a product, peculiar to one manufacturer, thereby precluding consideration of a product manufactured by another company. FAR Subpart 11.104, “Use of Brand Name or Equal Purchase Descriptions,” states “brand name or equal purchase descriptions must include, in addition to the brand name, a general description of those salient . . . characteristics of the brand name item that an ‘equal’ item must meet to be acceptable for award.”

We identified decentralized contracting officers that did not justify specified brand names and did not allow for product substitutions or document justifications in accordance with the FAR. As a result, the customer may have received a particular brand name, product, or feature that was not essential to the Government’s requirements, while another companies’ similar product may have met or could have been modified to meet the customer needs at a lower price. At one decentralized contracting site, brand names were used in 15 of 16 orders of

the decentralized task orders reviewed. This site allowed the customers to solicit the requirement on the NETCENTS portal and specify brand names. The warranted decentralized contracting officer then reviewed and approved each of these requirements as set by the customer in the portal without justifying the brand names.

## Information Assurance

A projected 14 percent of the 1,312 decentralized task orders did not meet IA requirements, and an additional, projected 25 percent did not define how IA product capabilities would be used. Specifically, we identified that the Government received products whose IA product capabilities were not certified or not adequately communicated to the contractor. Additionally, IT services were acquired without specifying IA roles and responsibilities.

**National Security Telecommunications and Information Systems Security Policy Number 11 Certification.** According to DoD Directive 8500.1, “Information Assurance,” all IA or IA-enabled IT hardware, firmware, and software components or products incorporated into DoD information systems must comply with the evaluation and validation requirements of National Security Telecommunications and Information Systems Security Policy (NSTISSP) Number 11. The NSTISSP Number 11 Fact sheet states that “the acquisition of all Commercial-Off-The-Shelf and Government-Off-The-Shelf IA and IA-enabled Information Technology products used on systems entering, processing, storing, displaying, or transmitting national security information, shall be limited only to those that have been evaluated and validated.” Additionally, the overall NETCENTS contract requires that all IA and IA-enabled products comply with NSTISSP Number 11.

The Government received products that were not NSTISSP Number 11-certified for IA. We identified decentralized contracting officers that did not communicate the need for NSTISSP Number 11 certification for IA or IA-enabled products in requests for proposals and bids.<sup>4</sup> As a result, the customer could not guarantee the availability, integrity, authentication, confidentiality, and non-repudiation of information carried on their information systems and networks for which these products were purchased. For example, one of the decentralized task orders was for the Secret Internet Protocol Router Network. The products purchased for this secure network contained encryption<sup>5</sup> software, which is an IA capability. Various versions of this software were validated and NSTISSP Number 11-certified; however, the specific version purchased for this secure network was not NSTISSP Number 11-certified. The decentralized contracting officer in the solicitation did not inform the contractor of the need for NSTISSP Number 11-certified products. Additionally, the decentralized contracting officer overseeing this order was unaware and uninformed of IA requirements in general.

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<sup>4</sup> A request for proposal or bid is an invitation for providers (the NETCENTS contractors) of a product or service to bid on the right to supply that product or service to the individual or entity that issued the request.

<sup>5</sup>Encryption is the reversible transformation of data from the original (the plain text) to a difficult-to-interpret format (the ciphertext) as a mechanism for protecting its confidentiality, integrity, and sometimes its authenticity.

**Information Assurance Roles and Responsibilities.** According to DoD Instruction 8500.2, “Information Assurance Implementation,” the acquisition or outsourcing of IT services must explicitly address Government, service provider, and end user IA roles and responsibilities. We identified decentralized task orders that did not address IA roles and responsibilities either completely or for certain entities. As a result, there was no guarantee that the Government, service provider, or end user were aware of their IA roles and responsibilities, or that those roles and responsibilities would be fulfilled for the services and products purchased. Failure to specify IA roles and responsibilities could result in services that compromise the security of DoD information systems. For example, at one site, work was performed at a Top Secret cleared facility. However, the task order contract file did not detail any security considerations and IA roles and responsibilities for the parties involved.

## Monitoring

A projected 84 percent of the 303 service and solution decentralized task orders did not have adequate monitoring. Specifically, we identified performance work statements written without results-oriented outcomes and measurable performance standards; quality assurance surveillance plans (QASP) (or equivalents) did not exist or were not written to show how performance standards would be monitored; or contracting officer representatives (COR) (or equivalents) were not designated to perform the monitoring functions.

**Performance-Based Work Statements.** FAR Subpart 37.102, “Policy,” states that “performance-based acquisition is the preferred method for acquiring services.” Agencies must “use performance-based acquisition methods to the maximum extent practicable.” Additionally, FAR Subpart 37.603, “Performance Standards” states that “performance standards establish the performance level required by the Government to meet the contract requirements. The standards shall be measurable and structured to permit an assessment of the contractor’s performance.” When the “offerors propose performance standards in response to a SOO [statement of objectives], agencies shall evaluate the proposed standards to determine if they meet agency needs.” Special clause H107 of the NETCENTS overall contracts, “Selection of Contractors for Order Awards,” states that performance-based work statements shall be used on all service task orders.

We identified decentralized performance-based statements of work or performance work statements in response to a statement of objectives that did not:

- have measurable performance standards,
- have a method to assess contractor performance against performance standards, nor
- have results-orientated outcomes.

As a result, the contractor’s methods of performing work may not be the most efficient and cost-effective methods, and the customer may not be able to assess the work performed. For example, task orders with a total value of more than \$20 million had inadequate performance-based work statements.

**Quality Assurance Surveillance Plans.** FAR Subpart 46.4, “Government Contract Quality Assurance,” states that a QASP “should be prepared in conjunction with the preparation of the statement of work.” The QASP “should specify all work requiring surveillance and the method of surveillance.” FAR Subpart 46.404 states that “in determining the type and extent of Government contract quality assurance to be required for contracts at or below the simplified acquisition threshold, the contracting officer shall consider the criticality of application of the supplies or services, the amount of possible losses, and the likelihood of uncontested replacement of defective work.”

The decentralized task order files did not:

- have a QASP (or equivalent) when required;
- identify the needed surveillance in the QASP (or equivalent);
- identify the method of surveillance in the QASP (or equivalent); or
- identify how surveillance was performed for orders at or under \$100,000.

As a result, there was no guarantee that the Government was receiving the quality of products and services that were contracted for; or that the products or services met the needs, expectations, and standards of the Government. At one site, 12 of 16 service orders reviewed did not have a QASP (or equivalent) prepared.

**Contracting Officer Representative.** Defense Federal Acquisition Regulation Supplement Procedures, Guidance, and Information 201.6, “Contracting Authority and Responsibilities,” states that, for contract actions for services awarded by a DoD Component or by any other Federal agency on behalf of DoD, contracting officers shall designate a properly trained COR. Defense Federal Acquisition Regulation Supplement 201.6 states that a COR must be designated in writing and the designation must specify the extent of the authority to act on behalf of the contracting officer, identify the limitations on the COR authority, specify the period covered by the designation, state the authority is not redelegable, and state that the COR may be held personally liable for unauthorized acts.

The decentralized task order files did not have:

- official COR designations,
- COR designation letters with all of the characteristics identified in the Defense Federal Acquisition Regulation Supplement,
- a COR designated in writing before the period of performance began, or
- a COR designated on site.

As a result, there was no guarantee that: contractor performance was assessed against the contract performance standards; surveillance was being performed; the person responsible for surveillance was qualified; a COR was aware of his or her responsibilities; and the products and services met the needs, expectations, and

standards of the Government. Of 23 sites<sup>6</sup> visited, 15 did not have a COR or quality assurance personnel designated on their task orders.

## Task Order Modifications

We judgmentally selected eight task orders with significant modifications for review. Of the eight orders, four had improper modifications valued at \$139.4 million.

**Task Order Requirements.** FAR Subpart 16.505 states that individual orders shall clearly describe all services to be performed or supplies to be delivered so the full cost or price for the performance of the work can be established when the order is placed.

We identified two task orders (valued at \$139.1 million) with non-definitive requirements.

- The first task order had modifications that increased the value of the order from \$1.6 million to \$140.2 million. The task order was for the design solution for the Second Generation Wireless Local Area Network for the Combat Information Technology System. The task order award was only for the implementation of the Second Generation Wireless Local Area Network at a field service evaluation site and two other sites. By not completely defining the requirements for installation at the other 99 sites before task order award, only the contractor that won the award could receive the additional work added to the order. Therefore, the subsequent \$138.6 million in modifications were not appropriate. Fair opportunity was not given to the NETCENTS contractors because competition was not adequate for the bulk of the work on the task order.
- The second task order created an indefinite-delivery, indefinite-quantity order under a multiple-award, indefinite-delivery, indefinite-quantity contract. Specifically, when equipment was needed, the task order was modified to obtain the equipment rather than placing separate delivery orders on the NETCENT contract. This order did not clearly describe all supplies to be delivered and the full cost was not established when the order was placed. Since the basic task order did not contain the complete requirement, the order was improper. As a result, modifications in the amount of \$525,000 were not appropriate. Fair opportunity was not given to the NETCENTS contractors because each contractor did not have a fair chance to bid on the entire requirements.

**Scope of Task Order Modifications.** FAR Subpart 52.243-4, “Changes,” states that “the contracting officer may, at any time, . . . by written order designated or indicated to be a change order, make changes in the work within the general scope of the contract.” However, if task orders have been inappropriately

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<sup>6</sup> The total numbers of sites visited were 27; however, 23 sites had service and solution task orders reviewed.

modified, and the scope has increased, fair opportunity requirements may have been violated since a new order should have been issued and all contractors should have had an opportunity to compete. FAR Subpart 16.505 states that the contracting officer shall give every “awardee a fair opportunity to be considered for each [delivery order or task] order exceeding \$3,000.” We identified modifications on two task orders that improperly increased the scope of the orders by \$317,000. One task order identified a particular building where a specific engineering study was to be conducted; however, the modifications increased the scope of the order to include additional buildings and an additional engineering study not previously identified in the original award. Another order identified support and administrative services for four specific military bases; however, the modifications improperly increased the scope to add an additional base not identified in the original award.

## Conclusion

The PMO control of decentralized contracting officers was not adequate. Decentralized contracting officers did not adhere to fair opportunity, competition, monitoring, and IA requirements. This occurred because the PMO developed an improper small business set-aside in the NETCENTS contract and did not oversee the decentralized contracting officers to ensure requirements were followed. As a result, there was no guarantee that the DoD customers received the desired products or services at the best values. In addition, DoD customers may not have achieved quality assurance and cost effectiveness; and contractors may not have met needs, standards, and expectations of the Government. In addition, the availability, integrity, confidentiality, and non-repudiation of information carried on information systems and networks were not ensured.

## Management Actions

In DoD Inspector General Report D-2007-106, we recommended that the Director, 754th ELSG develop written oversight procedures for decentralized task orders in accordance with Air Force Federal Acquisition Regulation Supplement. Management concurred with this recommendation and agreed to develop an oversight program.

## Recommendations

**A.1. We recommend that the Director, 754th Electronic Systems Group either develop an oversight program for decentralized task orders that, at a minimum, focuses on best value, appropriate use of brand names, performance-based acquisition methods, monitoring, and information assurance; or centralize the task order process.**

**Air Force Comments.** The Air Force Deputy Assistant Secretary (Contracting), commenting for the Director, 754th ELSG, concurred with the recommendation. He stated that the 754th ELSG will enhance the current oversight program for

decentralized task orders to focus on best value, appropriate use of brand names, performance-based acquisition methods, monitoring, and IA. He also stated that because of the previous DoD Inspector General Audit Report D-2007-106, "Air Force Network-Centric Solutions Contract," Headquarters 754 ELSG put enhanced processes into place to increase management and oversight of decentralized orders. He concurred that management and oversight of task orders issued against indefinite-delivery, indefinite-quantity contracts is an inherent responsibility of the owner of the contract per DoD Instruction 5010.40, "Managers' Internal Control (MIC) Program Procedures," and Air Force Federal Acquisition Regulation Supplement section 5316.505-90, "Decentralized Ordering." But, he also stated that acquisition experts, with the assistance of warranted contracting officers, are responsible for ensuring compliance with the FAR. In addition, he stated that the PMO instituted an enhanced oversight process whereby all service task orders are reviewed for compliance with the terms and conditions of the basic NETCENTS contract and IA concerns.

The Deputy Assistant Secretary stated that the NETCENTS contract has been modified (P00013) to address the brand name concern more clearly by incorporating into the contract Section H Clause H115, in full text, and FAR Subpart 52.211-6. In addition, he stated that the PMO has updated the *NETCENTS Ordering Guide*. He stated that IA and security requirements were updated in the *NETCENTS Ordering Guide* via contract modifications P00009 and P00011 on October 19, 2006, and December 19, 2006, respectively. In addition, he stated that the NETCENTS PMO agreed to conduct reviews for decentralized orders to assess compliance with the scope of the NETCENTS contract and all applicable DoD and Federal policies. Lastly, he stated that the 754th ELSG security manager will serve as the individual responsible for security and information assurance reviews with assistance from technical and contracting teams as needed.

**Audit Response.** The Air Force comments were responsive to the recommendation.

**A.2. We recommend that the Director, 754th Electronic Systems Group allow all of the contractors fair opportunity to bid on each task order unless a valid exception applies and then document all exceptions in the contract file.**

**Air Force Comments.** The Air Force Deputy Assistant Secretary (Contracting), commenting for the Director, 754th ELSG, concurred with the recommendation. He stated that the contract was modified via P00013 to remove the small business set-aside language on September 5, 2007, to ensure that fair opportunity is given for all orders exceeding \$3,000.

**Audit Response.** The Air Force comments were responsive to the recommendation.

## **B. Program Management Office Order Tracking and Fee Collection**

The NETCENTS PMO did not have adequate internal controls to track orders awarded under the NETCENTS contract or to ensure that all fees were being collected. This occurred because the NETCENTS PMO did not centrally record NETCENTS order information and relied on outside sources for the information. As a result, the NETCENTS PMO decentralized tracking process did not account for 117 task orders or task order modifications awarded under the NETCENTS contract valued at \$27.4 million, recorded 800 orders with incomplete information, improperly labeled at least 15 orders, and misreported the value of at least 10 task orders by \$1.3 million. Therefore, the total value of NETCENTS task orders was unknown, and the NETCENTS PMO could not ensure that the contract ceiling was not exceeded. In addition, as of April 2007, the PMO had collected only \$8.2 million in fees while its current decentralized tracking process indicated that \$16.3 million in fees should have been collected.

### **PMO Order Tracking**

The NETCENTS PMO did not have adequate internal controls to track the decentralized NETCENTS task orders. The NETCENTS PMO provided a spreadsheet of decentralized task orders, task order modifications, and credit card orders<sup>7</sup> placed under the NETCENTS contract. A NETCENTS program management official stated that the NETCENTS PMO spreadsheet was used to track the number of task orders issued, as well as other information including the total dollar value of all task orders. According to the NETCENTS program management official, the spreadsheet was manually created using Electronic Document Access (EDA)<sup>8</sup> queries and contractor-provided data.<sup>9</sup> The official stated that both EDA and the contractor information were known to be incomplete. After review of the spreadsheet, the audit team identified:

- 117 missing orders valued at \$27.4 million,
- 800 incomplete orders,
- 15 improperly labeled orders, and
- 10 orders with \$1.3 million in value errors.

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<sup>7</sup> Credit card orders more than \$3,000 should be associated with a task order number. However, these entries were not associated with a task order number or were less than \$3,000. As a result, the contractors provided a credit card code that was internal to the contractor's organization instead.

<sup>8</sup> EDA is an on-line document access system that provides secure on-line access, storage, and retrieval of contracts and contract modifications for use by DoD.

<sup>9</sup> Under NETCENTS, contractors are required to report all task orders upon receipt of award via the use of the Extensible Markup Language data format.

**Number of Orders.** We compared the PMO spreadsheet to the task order and task order modification data extracted from Federal Procurement Data System-Next Generation (FPDS-NG)<sup>10</sup> and lists of task orders and task order modifications from the decentralized sites visited. We identified 117 task orders,<sup>11</sup> valued at \$27.4 million that were not included in the NETCENTS PMO spreadsheet. Specifically, FPDS-NG contained 103 task orders, valued at \$19.5 million,<sup>12</sup> that were not included on the PMO spreadsheet and decentralized contracting office lists contained 14 task orders, valued at \$7.9 million<sup>13</sup> that were not included on the PMO spreadsheet. Potentially, more task orders could be missing in addition to the 117 orders identified because requested only task order lists from the 27 sites visited and the validity of the FPDS-NG database.

We performed accuracy tests using information from our 165 statistically selected task orders to verify the validity of the FPDS-NG database. Our data tests showed that FPDS-NG contained errors. Specifically, FPDS-NG did not include 18 of the 165 orders audited and contained 8 significant value errors. However, we were unable to determine with certainty how many task orders were missing from FPDS-NG or the value of the missing task order.<sup>14</sup> As a result, we could not validate that the NETCENTS PMO spreadsheet was not missing additional task orders or the values of those task orders.

**Order Information.** The NETCENTS PMO spreadsheet contained 4,398 entries. We removed 114 FY 2007 entries from the spreadsheet due to audit scope. We reviewed the remaining 4,284 entries to determine whether they were complete. We considered an entry to be incomplete if it was missing a dollar value, order date, or an order code. Without a dollar value, the PMO would be unable to properly identify ceiling amounts or usage fees. Without an order date, the PMO would be unable to determine when the usage fees would be collected. And finally, without a task order number or order code association, the PMO would be unable to determine the location of the contracting file and whether it was competed under the fair opportunity requirements for multiple-award, indefinite-delivery, indefinite-quantity contracts. Of the 4,284 entries included in the spreadsheet, 800 had incomplete information. When asked why the spreadsheet contained incomplete information, a NETCENTS program management official stated that contractors did not always provide complete or correctly formatted information.

**Order Labeling.** Of the 165 task orders reviewed for the statistical sample, the PMO improperly labeled 15 orders as a product or a service order. Initially, we used the NETCENTS PMO spreadsheet to distinguish between product and service task orders. Task orders labeled with a 'P' were identified as product

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<sup>10</sup> FPDS-NG contains task order data that the Federal Government uses to create recurring and special reports to the President, Congress, Government Accountability Office, Federal Executive agencies, and the general public.

<sup>11</sup> From this point forward, the use of the term "task orders" will include both task orders and task order modifications.

<sup>12</sup> This includes 26 task orders overstated by \$9.6 million and 77 task orders understated by \$10 million.

<sup>13</sup> This includes 1 task order overstated by \$3,234 and 13 task orders understated by \$7,875,895.

<sup>14</sup> Although FPDS-NG data are incomplete and contain some errors, they are sufficient evidence to show that the NETCENTS PMO spreadsheet is incomplete because FPDS-NG contains task orders that the NETCENTS PMO spreadsheet does not and we were able to establish the validity of some of the missing orders.

orders, while task orders labeled with an ‘S’ or a ‘PS’ were identified as service orders. However, upon task order review, we identified 15 orders that were not labeled properly. Specifically, we identified eight product task orders that were actually service orders and seven service task orders that were actually product orders. However, because we reviewed only the 165 statistically sampled task orders, there could be more mislabeled task orders.

**Order Value.** The NETCENTS PMO spreadsheet contained several cost errors within our sample. We compared the PMO spreadsheet values for the 165 statistical sample task orders to the actual task order values located at the sites. Ten task orders were incorrectly valued by \$1.3 million.<sup>15</sup> Therefore, the PMO spreadsheet was inaccurate, and the NETCENTS PMO would be unable to effectively track the contract ceiling amount and usage fees. Additionally, these numbers only take into account the 165 statistically sampled task orders. Therefore, it is possible that more task orders contain inaccurate values.

## Fee Collection

The NETCENTS PMO did not have adequate internal controls to ensure that its 1 percent usage fee was being collected. We identified an \$8 million difference between actual fees collected and fees that should have been collected. We asked the NETCENTS PMO, as well as financial personnel from the 754<sup>th</sup> ELSG, to further explain the fee collection process. The NETCENTS PMO response was vague, and provided no documentation to validate its process. The following contains the NETCENTS PMO description of its fee collection internal controls, the difference in fees, and our conclusions.

The NETCENTS PMO described its five-step process, as follows:

- The PMO collects sales (task order awards) from EDA, FPDS-NG, and mandatory submittals from issuing contracting officers.
- Financial management personnel validate the Contractor Check Report<sup>16</sup> and a copy of the usage fee check against the individual order payments from Defense Finance and Accounting Service.
- The financial management personnel validate the orders for which the fees were received against information from EDA, FPDS-NG, and contracting officer-provided data to ensure the contractor has remitted the correct usage payment.
- The financial management personnel update their projected revenue, which the financial personnel derived from the invoiced amounts, to ensure reports were submitted for each contractor and to identify whether the usage fee from a NETCENTS prime contractor was received for a given month.

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<sup>15</sup>This includes four orders overstated by \$635,000 and six orders understated by \$658,000.

<sup>16</sup> The Contractor Check Report is a self-reporting tool provided monthly by each contractor identifying fees submitted.

- The PMO reconciles the fee collections with the projected revenue, which the PMO derived from EDA, FPDS-NG, and mandatory submittals from issuing contracting officers.

The NETCENTS PMO was unable to provide a schedule detailing the collection of fees. According to a program management official, the \$8 million difference existed because of a lag time in the collection of the 1 percent NETCENTS contract fee. The NETCENTS PMO stated that the payment process sometimes gets delayed from the agency to the Defense Finance and Accounting Service, from the Defense Finance and Accounting Service to the contractor, and then finally from the contractor to the NETCENTS PMO. Contractors did not pay the NETCENTS PMO until they were paid and the contractors did not get paid until work was finished or after milestones on a task order were achieved. However, the NETCENTS PMO was unable to provide a schedule indicating when the usage fees for each task order would be collected. Additionally, a program management official explained that the NETCENTS PMO spreadsheet was not used for revenue collection because it was based on obligation amounts, while the revenue collection was based upon the work funded, performed, and invoiced during the period of performance.

The internal controls were not adequate or auditable. The NETCENTS PMO spreadsheet was the primary basis for tracking the total orders, and order values were not comprehensive or correct. In addition, the NETCENTS PMO and the financial personnel calculated projected revenues differently. The NETCENTS PMO also did not have a schedule identifying when the \$8 million would be collected. Lastly, as shown below, the fee collection process was reactive and dependent on outside sources.

- The NETCENTS PMO relied on contractor data for the amount of fee to be collected. However, there was no control to ensure that the contractor would report correct task order information or all task orders placed.
- The NETCENTS PMO relied on decentralized quality assurance personnel for order information and the cumulative amount of fee to be collected. We have shown that the decentralized contracting officers were not a reliable source of information because they did not adequately enforce Federal and DoD contract requirements.
- The NETCENTS PMO relied on EDA and FPDS-NG to identify order information and validate the data obtained even though we determined that FPDS-NG contained incomplete and inaccurate task order information. Also, neither EDA nor FPDS-NG included credit card orders.

## **Conclusion**

The NETCENTS PMO spreadsheet of orders was incomplete. Specifically, the spreadsheet did not contain all orders, had orders with incomplete information, and had orders with incorrect values. In addition, the PMO did not have auditable controls to ensure the collection of usage fees. This occurred because the PMO

did not centrally record order information and relied on outside sources to obtain the information.

## **Recommendations**

**B. We recommend that the Director, 754th Electronic Systems Group centrally record all Air Force Network-Centric Solutions Contract orders, and develop auditable processes to track orders and fees owed.**

**Air Force Comments.** The Air Force Deputy Assistant Secretary (Contracting), commenting for the Director, 754th ELSG, concurred that an improved and more auditable usage-fee collection process is required. He stated that the HQ 754th ELSG will review and improve the oversight responsibilities to ensure more accurate and complete accountability for usage fees is accomplished no later than January 31, 2008.

**Audit Response.** The Air Force comments were responsive to the recommendation.

## **C. DoD Use of the General Services Administration to Place NETCENTS Task Orders**

DoD customers were paying the General Services Administration (GSA) to place NETCENTS task orders instead of using DoD contracting offices. Specifically, GSA placed 91 orders for DoD customers on the Air Force NETCENTS contract. This occurred because the DoD customers did not use best business practices, and there were no Federal or DoD policies for these types of acquisitions. As a result, DoD wasted approximately \$607,000, which could have been used for warfighter needs and approximately 70 percent of these orders were awarded to one of the eight NETCENTS contractors.

### **General Services Administration Ordering Activity on the NETCENTS Contract**

We identified 91 task orders issued by GSA for DoD customers<sup>17</sup> that used the Air Force NETCENTS contract based on information from the NETCENTS Program Management Office and the FPDS-NG.<sup>18</sup> The approximate value of these orders was \$21.9 million.

### **Best Business Practice**

The use of GSA was not a best business practice since options were available within DoD at a lower cost. Generally, GSA charged DoD a fee between 2 and 5 percent for these assisted acquisitions. For orders under \$25,000, GSA charged a flat fee of \$500. The DoD customers should have used their local contracting offices at no charge. If a local contracting office did not exist or if it was unavailable, the NETCENTS PMO advertised in its *NETCENTS Ordering Guide* that it would provide assisted acquisition services for \$150 (orders \$2,500 and less), 0.6 percent (orders between \$2,500 and \$13 million), or \$7,800 (above \$13 million). Therefore, the use of DoD contracting offices would have been less expensive.

### **Policy on Assisted Acquisitions**

We did not identify any Federal or DoD policy that addressed contracts awarded by a non-DoD agency on behalf of a DoD customer using a DoD contract. The

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<sup>17</sup> Includes Army, Navy, Air Force, and other DoD agencies.

<sup>18</sup> FPDS-NG contains computer-processed data and we determined that it was not complete and had some inaccuracies. Therefore, it is possible that more than 91 of these orders were placed. Also, we validated that 74 of the 91 orders were actual contract actions; however, we did not have time to validate the other 17, 16 of which were placed in FY 2007.

Property and Economy Acts were not applicable because these acquisitions were not in the best interest of the Government. The FAR and Defense Federal Acquisition Regulation Supplement were silent on these types of acquisitions. One DoD memorandum addressed assisted acquisition, but only when a non-DoD contract was used. Specifically, the Under Secretary of Defense for Acquisition, Technology, and Logistics reissued a memorandum, "Proper Use of Non-DoD Contracts," July 20, 2005. This memorandum addresses certain procedures that Military Departments and Defense agencies must establish for reviewing and approving the use of non-DoD contract vehicles when procuring supplies and services. The memorandum states that it is applicable to assisted acquisitions; however, NETCENTS is a DoD contract. It seems prudent that DoD customers would use DoD resources to award orders on DoD's own contract; however, we found that no policy exists to address these unique circumstances.

## **Costs Associated With GSA Assisted Acquisition Services**

For the 91 orders we identified, DoD customers wasted approximately \$607,000 in GSA fees, which could have been put to better use supporting the warfighter. In addition, we were unable to determine whether fair opportunity was given to all contractors because approximately 70 percent of these orders were awarded to one of the eight NETCENTS contractors.

## **Recommendation**

**C.1. We recommend that the Acquisition Executives of the Army, Navy, and Air Force investigate the circumstances of these acquisitions and take administrative action against the DoD customers that did not pursue DoD contracting options before using GSA assistance.<sup>19</sup>**

**Army Comments.** The Deputy Assistant Secretary of the Army (Policy and Procurement) concurred with the recommendation. She stated that the Army would investigate the three U.S. Army actions identified by the audit. She also stated that, based on the investigation, the Army would determine what administrative action is appropriate. Finally, she stated the investigation would be completed by December 30, 2007.

**Navy Comments.** The Deputy Assistant Secretary of the Navy (Acquisition and Logistics Management) concurred with the recommendation. He stated that the Navy is investigating the two Department of the Navy orders (GST0905DF0592 and GST0905DF0793). He also stated that the information-gathering process to determine what happened was under way, but they do not intend to complete the review until the end of the calendar year (December 31, 2007), at which time they will provide additional information.

The Deputy Assistant Secretary stated that the Department of the Navy has issued a policy (Proper Use of Non-DoD Contracts) that requires Department of the Navy contracting departments to establish procedures for reviewing and

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<sup>19</sup> Copies of the GSA orders can be provided on request.

approving the use of non-DoD contract vehicles for supplies or services in excess of the simplified acquisition threshold. He stated that these procedures have been implemented throughout the Department of the Navy.

**Air Force Comments.** The Air Force Deputy Assistant Secretary (Contracting), commenting for the Director, 754th ELSG, concurred with the recommendation. He stated that the Air Force will investigate the GSA task orders initiated by Air Force users and will research the circumstances behind each Air Force-generated task order. He also stated that resulting action, either administrative or education, will be based on the findings of the investigation, and they intend to complete the investigation by December 31, 2007.

**Audit Response.** The Army, Navy, and Air Force comments were responsive to the recommendation.

**C.2. We recommend that the Director, Defense Procurement and Acquisition Policy issue policy governing the use of assisted acquisitions when a non-DoD agency places an order for a DoD customer using a DoD contract. This policy should, at a minimum, require justifications that identify these assisted acquisitions are in the best interest of the Government and that the costs for assisted acquisition services are reasonable.**

**Under Secretary of Defense for Acquisition, Technology, and Logistics Comments.** The Director, Defense Procurement and Acquisition Policy concurred with the recommendation. He stated that the Department will issue a policy memorandum on the use of assisted acquisitions when a non-DoD agency places an order for a DoD customer using a DoD contract. He stated that the memorandum was expected to be issued by October 31, 2007.

**Audit Response.** The Under Secretary of Defense for Acquisition, Technology, and Logistics comments were responsive to the recommendation.

# Appendix A. Scope and Methodology

We conducted this performance audit from November 2006 through August 2007 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives. This is the second audit regarding the NETCENTS contract.

We conducted this audit at various U.S. Military installations. Specifically, we performed site visits and interviewed contracting officers, contracting specialists, and other supporting contracting office personnel responsible for issuing NETCENTS task orders at 27 contracting office locations throughout the continental United States. In addition we interviewed personnel responsible for the NETCENTS contract at the 754th ELSG at Gunter Air Force Annex in Montgomery, Alabama.

To evaluate whether the NETCENTS task orders complied with the appropriate Federal and DoD criteria, we reviewed Federal and DoD acquisition requirements, DoD Directives, DoD Instructions, and Air Force Instructions relating to contracting and IA and developed a review checklist. See Appendix B for the review checklist.

We scoped our audit sample to include a universe of 1,312 decentralized task orders issued from FY 2004 through the end of FY 2006. The NETCENTS Program Management Office (PMO) provided the audit team 4,398 NETCENTS task order entries. We excluded the following entries in sequence:

- 113 entries approved in FY 2007 were excluded because the scope of our audit was limited to task orders from FY 2004 through FY 2006.
- 440 entries that were modifications of existing task orders were excluded because these task orders, if left in the universe, could result in the same task order being chosen more than once in the statistical sample.
- 850 entries\* that had incomplete information were excluded because these entries did not have enough information to determine where the contracting files were located.
- 473 entries that were less than \$3,000 were excluded because the task orders are below the micropurchase threshold and could be purchased with credit cards by non-contracting officers.

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\* Entries were excluded from the universe because of missing order codes. Later when we reviewed the spreadsheet in more detail to determine how many incomplete entries existed, we found that some entries' order code information was not entered in the order code column but the information could be found in another column. To error on the side of caution, we found those entries to be complete as part of finding B, but since the statistical sample had already been created, we reported them as incomplete as part of the scope and methodology section.

- 71 entries that were issued by non-DoD contracting officers were excluded because these contracting officers were outside our review.
- 208 entries with the site code of 6K were excluded because this site code corresponds to Gunter Annex at Maxwell Air Force Base, making the order centralized.
- 103 entries that were credit card orders above \$3,000 were excluded from the sample because these orders had a site code of CC (credit card) that could not be tracked back to a contracting office.

Because of resource restrictions we grouped the remaining 2,140 task orders into geographical clusters to determine the magnitude of orders by site. We chose six clusters or sites with the largest number of task orders with the following goals in mind:

- pick clusters or sites with enough orders to perform a statistically relevant sample,
- keep within the resource allocations of the audit, and
- maximize the number of service task orders in the sample.

The 6 clusters resulted in a universe of 1,009 product and 303 service orders that the Office of Inspector General Quantitative Methods Directorate used to select a statistical sample of 165 orders (90 products and 75 services) to review. We reviewed the 165 task orders sampled to determine whether the orders complied with Federal and DoD contracting and acquisition policy relating to competition, surveillance, contracting officer qualifications, and information assurance. We also judgmentally selected an additional eight orders that had modifications, which significantly increased the overall value of the order, to determine whether the orders complied with Federal and DoD contracting and acquisition policy.

We analyzed the completeness and reliability of the PMO spreadsheet by comparing it with other sources of order information including the FPDS-NG, EDA, and contracting office records retrieved during site visits. In addition, we reviewed and analyzed the PMO process for fee collection to determine whether it had sufficient internal controls to adequately collect all NETCENTS fees.

We analyzed the PMO spreadsheet and the FPDS-NG to determine whether DoD customers placed orders under the NETCENTS contract by using GSA contracting officers. We reviewed United States Code and Federal and DoD acquisition policy to determine whether these task orders constituted acceptable uses of GSA contracting officers. We also obtained a legal opinion from the DoD Office of Inspector General, General Counsel to assess the legal authority for GSA contracting officers to order from DoD contracts for DoD customers.

**Use of Computer-Processed Data.** We used computer-processed data from the FPDS-NG to determine whether the NETCENTS PMO spreadsheet included all NETCENTS task orders. Agencies are required to input data for contracts above \$3,000 into FPDS-NG to include the cost of contract actions. FPDS-NG allows agencies several options (manual, machine-to-machine, or batch process) to enter data. FPDS-NG provides a mechanism for assembling, organizing, and

presenting contract placement data for users. FPDS-NG requires that data pass validation rules and that each agency certify the validity and completeness of this data. We determined that these controls were not sufficient to reduce the risk of using FPDS-NG data to an acceptable level; therefore, we conducted direct data testing. We performed completeness, accuracy, and validity tests on FPDS-NG data using information we verified during the audit of our 165 statistically selected task orders and contracting documents that we obtained from EDA. Although we determined that the FPDS-NG data were incomplete and contain some errors, we considered the data sufficient evidence to show that the NETCENTS PMO spreadsheet was incomplete because FPDS-NG contained task orders that the NETCENTS PMO spreadsheet did not contain.

**Use of Technical Assistance.** The Office of Inspector General Quantitative Methods Directorate developed the statistical sample of product and service task orders to be audited. In addition, the Quantitative Methods Directorate performed calculations to make statistically defensible estimates for the universe of task orders based on the audited sample results and assisted in interpreting and using the estimates correctly. See Appendix C for the results.

**Government Accountability Office High-Risk Area.** The Government Accountability Office has identified several high-risk areas in DoD. This report provides coverage of the high-risk areas relating to protecting the Federal Government's information-sharing mechanisms and the Nation's critical infrastructure, contract management, and management of interagency contracting.

## Prior Coverage

During the last 5 years, the DoD Inspector General and the Air Force Audit Agency have issued two reports relating to the NETCENTS contract. Unrestricted DoD Inspector General reports can be accessed at <http://www.dodig.mil/audit/reports>. Unrestricted Air Force Audit Agency reports can be accessed at <https://www.afaa.hq.af.mil/afck/plansreports/reports.shtml>.

### DoD Inspector General

DoD Inspector General Report No. D-2007-106, "Air Force Network-Centric Solutions Contract," June 29, 2007

### Air Force Audit Agency

Air Force Audit Agency Report No. F2007-0011-FB4000, "Network Centric Solutions Contract Implementation and Management," September 4, 2007

# Appendix B. Audit Checklist Questions

## Competition

Did the contracting office adequately compete the task order among all eight NETCENTS contractors? (FAR Subpart 16.505)

Is the contracting officer following the FAR fair opportunity requirements by NOT first issuing a small dollar value contract and then using follow-on sole-source contracts for greater dollar values based on the follow-on exception to the fair opportunity process? (FAR Subpart 16.505[b][4])

Did the contracting officer document the rationale for best value in the contracting file? (FAR Subpart 16.505[b])

Does the task order allow for adequate competition by not asking for brand names in the Request for Proposals or Request for Quotes? (FAR Subpart 16.505[b][4], FAR Subpart 11.105, and FAR Subpart 11.104)

## Contracting Officer Qualifications

Was the person who placed the task order qualified? (FAR Subpart 1.603-3)

## Task Order Surveillance and Monitoring (Service Task Orders Only)

Is the task order's performance-based work statement performance-based? (FAR Subpart 37.102, FAR Subpart 37.601, FAR Subpart 37.602, FAR Subpart 37.603, and Special Clause H107 of the NETCENTS contract)

Was a Quality Assurance Surveillance Plan developed for the task order? (FAR Subpart 46.401 and FAR Subpart 46.404)

Did the contracting officer officially designate a Contracting Officer's Representative to monitor the contractor's performance? (Defense Federal Acquisition Regulation Supplement 201.602-2 and Air Force Instruction 63-124)

## Information Assurance

For services only, are Government, service provider, and end user IA roles and responsibilities explicitly addressed in the task order? (DoD Instruction 8500.2)

For services only, are all subcontractors authorized to perform work on DoD contracts? (FAR Subpart 25.701 and FAR Subpart 9.402)

Were all products ordered for IA purposes certified under the NSTISSP Number 11, "National Policy Governing the Acquisition of IA and IA-Enabled Information Technology Products"? (DoD Directive 8500.1 and NSTISSP Number 11 Factsheet)

## Appendix C. Projection Results From the Statistical Sample

We requested 4 statistical projections for the universe of 1,312 service and product task orders and 1 projection for the subuniverse of 303 service task orders based on 165 task orders sampled (see Appendix D for audit results). The five projections regarded the number of task orders with fair opportunity, competition, and monitoring errors and an undeterminable usage of information assurance product capabilities (see Appendix B for areas audited). The projections and confidence intervals are based on a collective 95 percent confidence level. The 95 percent confidence level means there is a 5 percent risk that one or more confidence intervals will not encompass the true population value.

The projection results are in the following five tables. Using the information from Table 1, we can project that between 23 percent and 45.3 percent (confidence interval) of the 1,312 task orders had fair opportunity errors,<sup>1</sup> with a point estimate<sup>2</sup> of 34.1 percent. The corresponding number of task orders range from 301 to 594, with a point estimate of 448. The next four tables can be interpreted the same way.

<b>Table 1. Estimated Number of Task Orders With Fair Opportunity Errors</b>			
	Lower Bound	Point Estimate	Upper Bound
Rate	0.230	0.341	0.453
Number	301	448	594

<b>Table 2. Estimated Number of Task Orders With Other Competition Errors</b>			
	Lower Bound	Point Estimate	Upper Bound
Rate	0.458	0.570	0.681
Number	601	747	894

<sup>1</sup> In this instance, error is defined as not meeting the requirement.

<sup>2</sup> The point estimate falls halfway between the upper and lower bounds, and gives us a single numerical value to represent the projection.

<b>Table 3. Estimated Number of Task Orders With Information Assurance Errors</b>			
	Lower Bound	Point Estimate	Upper Bound
Rate	0.059	0.143	0.226
Number	77	187	297

<b>Table 4. Estimated Number of Task Orders With Information Assurance Undetermined</b>			
	Lower Bound	Point Estimate	Upper Bound
Rate	0.145	0.248	0.352
Number	190	326	461

The projection reported in Table 5 is based on the 75 task orders sampled statistically from the 303 that were classified as service task orders. Our audit work revealed that only 68 were actually service task orders; the true number of service task orders is unknown. However, we can use the sample results for the 75 to estimate the proportion of actual service task orders that have monitoring errors.

<b>Table 5. Estimated Number of Task Orders With Monitoring Errors (Services Only)</b>			
	Lower Bound	Point Estimate	Upper Bound
Rate	0.738	0.839	0.939

## Appendix D. Audit Results of the Statistical Sample

<u>Checklist Areas</u> <sup>1</sup>	<u>Yes</u>	<u>No</u>	<u>N/A</u>	<u>Undeterminable</u>	<u>Total</u>
<b>Competition</b>					
Fair Opportunity	111	54	N/A	N/A	165
No Follow-On Sole-Source	161	4	N/A	N/A	165
Best Value	141	24	N/A	N/A	165
Brand Names	90	75	N/A	N/A	165
<b>Surveillance</b>					
Performance Work Statement <sup>2</sup>	54	22	N/A	N/A	76
Quality Assurance Surveillance Plan <sup>2</sup>	44	32	N/A	N/A	76
Contracting Officer's Representative <sup>2</sup>	12	64	N/A	N/A	76
<b>Contracting Officer Qualifications<sup>3</sup></b>	165	0	N/A	N/A	165
<b>Information Assurance</b>					
IA Roles and Responsibilities <sup>2</sup>	67	9	N/A	N/A	76
Subcontractors Authorization <sup>2</sup>	74	2	N/A	N/A	76
NSTISSP Number 11	8	16	103	38	165

<sup>1</sup> See Appendix B for a complete list of the checklist questions.

<sup>2</sup> These questions pertain to services only.

<sup>3</sup> This area was not discussed in the report because we identified no issues.

# **Appendix E. Report Distribution**

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

Under Secretary of Defense for Acquisition, Technology, and Logistics  
Under Secretary of Defense (Comptroller)/Chief Financial Officer  
Deputy Chief Financial Officer  
Deputy Comptroller (Program/Budget)  
Assistant Secretary of Defense (Networks and Information Integration/DoD Chief Information Officer)  
Director, Program Analysis and Evaluation  
Director, Administration and Management

## **Joint Staff**

Vice Director, Joint Chiefs of Staff

## **Department of the Army**

Auditor General, Department of the Army

## **Department of the Navy**

Auditor General, Department of the Navy  
Naval Inspector General

## **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, National Security Agency

## **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 Oversight and Government Reform  
House Subcommittee on Government Management, Organization, and Procurement,  
Committee on Oversight and Government Reform  
House Subcommittee on National Security and Foreign Affairs,  
Committee on Oversight and Government Reform

# Under Secretary of Defense for Acquisition, Technology, and Logistics Comments



ACQUISITION,  
TECHNOLOGY  
AND LOGISTICS

OFFICE OF THE UNDER SECRETARY OF DEFENSE

3000 DEFENSE PENTAGON  
WASHINGTON, DC 20301-3000

SEP 12 2007

MEMORANDUM FOR ASSISTANT INSPECTOR GENERAL, PROGRAM  
DIRECTOR ACQUISITION AND CONTRACT  
MANAGEMENT

THROUGH: DIRECTOR, ACQUISITION RESOURCES AND ANALYSIS

NS  
9/12/07

SUBJECT: Response to OIG Draft Report Notification "On Task Orders on the Air  
Force Network-Centric Solutions Contract"  
(Project No. D2007-D000AS-0074.000)

As requested, I am providing the USD (AT&L) response to recommendation C.2.  
of the subject report.

**Recommendation C.2.**

The OIG recommended that the Director, Defense Procurement and Acquisition Policy issue policy governing the use of assisted acquisitions when a non-DoD agency places an order for a DoD customer using a DoD contract. This policy should, at a minimum, require justifications that identify these assisted acquisitions are in the best interest of the Government and that the cost for assisted acquisitions services are reasonable.

**Response:**

**Concur.** The Department will issue a policy memo on the use of assisted acquisitions when a non-DoD agency places an order for DoD customers using a DoD contract. We expect to issue the policy memo by October 31, 2007.

My POC is Michael Canales. He can be reached at (703) 695-8571 or via e-mail at michael.canales@osd.mil.

Shay D. Assad  
Director, Defense Procurement  
and Acquisition Policy

cc:  
DUSD (I&E)  
DUSD (C)



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# Department of Army Comments



DEPARTMENT OF THE ARMY  
OFFICE OF THE ASSISTANT SECRETARY OF THE ARMY  
ACQUISITION LOGISTICS AND TECHNOLOGY  
103 ARMY PENTAGON  
WASHINGTON DC 20310-0103

OCT 01 2007

SAAL-PP

MEMORANDUM FOR ASSISTANT INSPECTOR GENERAL, AUDIT POLICY AND  
OVERSIGHT, INSPECTOR GENERAL DEPARTMENT  
OF DEFENSE, 400 ARMY NAVY DRIVE,  
ARLINGTON, VA 22202

SUBJECT: Draft Report: Task Orders on the Air Force Network-Centric  
Solutions Contract--Project No. D2007-D000AS-0074 0000  
Dated August 8, 2007

The Deputy Assistant Secretary of the Army (Policy and Procurement) has reviewed this report. We concur with recommendation C.1.

Recommendation C.1 recommends that the Army Acquisition Executive investigate the circumstances relating to these acquisitions and take appropriate action against the U.S. Army customers that did not pursue using a Department of Defense contracting option before using the General Services Administration assistance.

U.S. Army Reply: Concur. We will investigate the three U.S. Army actions identified by the auditor. Based on the investigation, we will determine what administrative action is appropriate. We plan to have this investigation completed by December 30, 2007.

A handwritten signature in cursive script, appearing to read "E. Ballard".

E. Ballard  
Deputy Assistant Secretary of the Army  
(Policy and Procurement)

# 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

SEP 18 2007

MEMORANDUM FOR DEPARTMENT OF DEFENSE INSPECTOR GENERAL

Subj: RESPONSE TO COMMENTS DRAFT DOD-IG AUDIT ON TASK ORDERS ON  
THE AIR FORCE NETWORK-CENTRIC SOLUTIONS CONTRACT  
(Project No. D2007-D000AS-0074.000) (DATED AUGUST 8, 2007)

Ref: (a) Draft DOD-IG Audit Project Number D2007-D000AS-  
0074.000 dated August 8, 2007

Encl: (1) DoN policy memo entitled "Proper Use Of Non-DoD  
Contracts" dated December 20, 2004

omitted due  
to length

As recommended by reference (a) recommendation C.1, we are investigating the two Department of the Navy (DoN) orders (GST0905DF0592 and GST0905DF0793), which were placed by GSA on the subject Air Force contract. We are in the process of gathering all available information to determine what actually happened. With this being the end of the fiscal year, we don't expect to complete our review until the end of the calendar year, at which time we will provide you with additional information.

The DoN has instituted a policy, enclosure (1), which requires DoN contracting departments to establish procedures for reviewing and approving the use of non-DoD contract vehicles for supplies or services in excess of the simplified acquisition threshold. These procedures have been implemented throughout the DoN.

My point of contact is Mr. Ronald G. Ostrom (703) 693-4012, fax (703) 614-4713, or by email (ronald.ostrom@navy.mil).

A handwritten signature in cursive script that reads "Bruce Sharp".

Bruce Sharp  
Director, Program Analysis and Business  
Transformation  
Deputy Assistant Secretary of the Navy  
(Acquisition & Logistics Management)

# Department of the Air Force Comments



DEPARTMENT OF THE AIR FORCE  
WASHINGTON, DC



OFFICE OF THE ASSISTANT SECRETARY

SEP 20 2007

MEMORANDUM FOR DEPUTY 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 Task Orders on the Air Force Network-Centric Solutions Contract  
(Project No. D2007-D000AS-0074.000)

This is in reply to your memorandum requesting management provide comments on subject report, recommendations A, B and C.1 (Air Force only). Recommendation C.2 is for the Director, Defense Procurement and Acquisition Policy and will not be addressed in our comments. The following is provided on each finding and recommendation described in subject report:

**Recommendation A.1:** Either develop an oversight program for decentralized task orders that, at a minimum, focuses on best value, appropriate use of brand names, performance-based acquisition methods, monitoring, and information assurance; or centralize the task order process.

The Air Force Concur.

The HQ 754<sup>th</sup> ELSG will enhance the current oversight program for decentralized task orders to focus on best value, appropriate use of brand names, performance-based acquisition methods, monitoring, and information assurance. In fact, as a result of the previous DoD IG Audit Report D-2007-106, "Air Force Network-Centric Solutions Contract," HQ 754 ELSG enhanced processes were put into place to increase management and oversight of decentralized orders. We concur management and oversight of task orders issued against IDIQ contracts is an inherent responsibility of the owner of the contract per DoD Instruction 5010.40 and the Air Force Federal Acquisition Regulation Supplement section 5316.505-90. However, it should also be noted that acquisition experts with the assistance of warranted contracting officers have responsibility for ensuring compliance with Federal Acquisition Regulations (FAR). In light of the findings in the report, the Program Management Offices (PMO) instituted an enhanced oversight process whereby all services task orders are reviewed to ensure orders comply with the terms and conditions of the basic NETCENTS contract and Information Assurance (IA) concerns. Moreover, as a result of the AFAA Draft Audit Report, Air Force Network-Centric Solutions Contract, Project No. F2006-FB4000-0071.000, the Air Force has instituted a process to monitor and report costs savings to SAF/AQC on a quarterly basis.

With respect to Brand Name Justifications not being documented, the NETCENTS contract has been modified (P00013) to more clearly address the brand name concern by incorporating in Section H, Clause H115, in full text, FAR Provision 52.211-6, and the PMO has also updated the NETCENTS Ordering Guide. Recognizing the findings identified in this report, the PMO will continue to increase awareness to contracting and customer communities, Customer Service Representatives, and through continued quarterly Program Management Reviews (PMRs) with our NETCENTS prime contractors to support these changes.

Regarding the IA finding, it is a repetitive finding that the NETCENTS PMO addressed in response to the previous DoD IG report and action had already been taken well before the time of this report to ensure the clauses were identified in the basic contract and incorporated into the NETCENTS Performance Work Statement. Additionally, IA and security requirements were updated in the NETCENTS Ordering Guide. This was accomplished via P00009 and P00011 contract modifications to the NETCENTS contract, dated 19 Oct 06 and 19 Dec 06 respectively. The NETCENTS PMO, as a result of the previous finding, agreed to conduct reviews (LAW AFFARS 5316.505-90(b)), for decentralized orders, in order to assess compliance with the scope of the NETCENTS contract, and applicable DoD and Federal policies. The 754<sup>th</sup> ELSG security manager will serve as the individual responsible for security and information assurance reviews with assistance by technical and contracting teams, as needed. As such, we consider this finding closed and should be identified as requiring no further actions except to continue to monitor and implement IA changes as appropriate.

**Recommendation A.2:** Allow all of the contractors fair opportunity to bid on each task order unless a valid exception applies and then document all exceptions in the contract file.

The Air Force Concurs.

In our response to DoD IG Audit Report D-2007-106, "Air Force Network-Centric Solutions Contract" the Air Force agreed to modify the contract to remove the Small Business reservations language to address the fair opportunity to compete concerns.

As stated previously, we acknowledge that the evolving requirements for fair opportunity competitions and the uncertainty and legal scrutiny associated with the reservation of contract awards under multiple award contracts indicate that there is more work to be done with respect to implementing future acquisitions to meet the Air Force and DoD small business goals. Given this uncertainty and NETCENTS success in meeting these goals without the use of this clause, the contract was modified to remove the small business set-aside language via P00013, dated 5 Sep 07, to ensure that fair opportunity is given for orders exceeding \$3,000.

**Recommendation B:** Centrally record all Air Force Network-Centric Solutions Contract orders, and develop auditable processes to track orders and fees owed.

The Air Force Concurs.

The HQ 754<sup>th</sup> ELSG concurs that an improved and more auditable usage fee collection process is required. Currently, the NETCENTS contract requires contractors to pay the contract usage fee once they receive payment from DFAS for any given NETCENTS invoice. The HQ 754<sup>th</sup>

financial management personnel presently validate each monthly usage fee report and ensure usage fee payments are accounted for in the DFAS accounting system. Errors discovered during validation are identified to the vendor and/or DFAS for reconciliation. The HQ 754<sup>th</sup> ELSG personnel apply disciplined processes whereby they diligently track revenue. They continuously seek methods to improve and streamline their processes through automation, Rapid Improvement Events, and Lean Process Initiatives. Furthermore, in recognition of the need for improvement, HQ 754<sup>th</sup> ELSG will review and improve the oversight responsibilities to ensure more accurate and complete accountability for usage fees is accomplished NLT 31 Jan 08.

**Recommendation C.1:** Acquisition Executives of the Army, Navy, and Air Force investigate the circumstances of these acquisitions and take administrative action against the DoD Customers that did not pursue DoD contracting options before using GSA assistance.

The Air Force Concur in part.

The Air Force will investigate those GSA task orders that were initiated by Air Force users and will research the circumstances behind each Air Force generated task order. The resulting action, either administrative or education, will be based on the findings of our investigation. Our estimated investigation completion date is 31 Dec 07.

Please feel free to contact my action officer, Lt Col Paul Bugenske, at (703) 696-1095, if you require further information related to this matter. I appreciate your interest in our response to this draft report and look forward to receiving the final report.

  
CHARLIE E. WILLIAMS, JR.  
Deputy Assistant Secretary (Contracting)  
Assistant Secretary (Acquisition)

## **Team Members**

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

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# Inspector General Department of Defense

