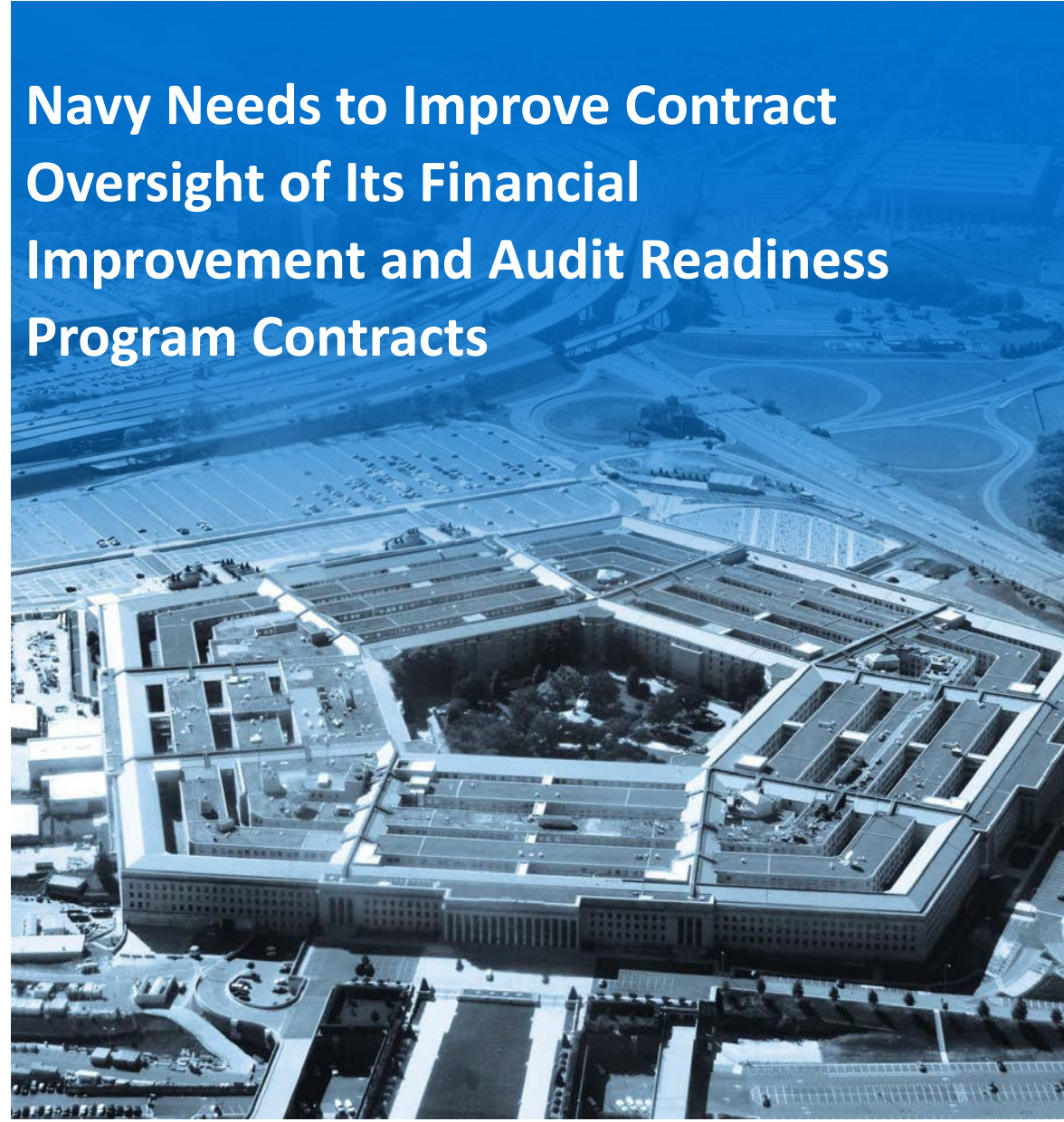




INSPECTOR GENERAL

U.S. Department of Defense

JANUARY 13, 2014



Navy Needs to Improve Contract Oversight of Its Financial Improvement and Audit Readiness Program Contracts

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Results in Brief

Navy Needs to Improve Contract Oversight of Its Financial Improvement and Audit Readiness Program Contracts

January 13, 2014

Objective

The objective of the audit was to determine whether the Navy is performing effective oversight of the contracts for its Financial Improvement and Audit Readiness Program.

Findings

The Navy Office of Financial Operations and Naval Supply System Command, Fleet Logistics Center Norfolk, Philadelphia Office (NAVSUP FLC Philadelphia) did not perform adequate contract oversight on all 13 nonstatistically selected sampled task orders related to the Navy's Financial Improvement and Audit Readiness efforts as of September 30, 2012.

This occurred because the contracting officer believed the quality assurance surveillance plan for the SeaPort-e contract or the performance standards within each task order fulfilled the requirements; the Navy Office of Financial Operations reprioritized its audit-readiness focus and believed part of the deliverable was not required; no mechanism was in place to track deliverable submission dates; and the contracting officer and the Deputy Director, Office of the Deputy Assistant Secretary Financial Operations, did not process appointment letters accurately. As a result, NAVSUP FLC Philadelphia had limited assurance on the quality of audit-readiness services totaling \$26.3 million in expended funds as of September 30, 2012.

Recommendations

We recommend that the Site Director of NAVSUP FLC Philadelphia:

- Verify contracting officers prepare quality assurance surveillance plans.
- Establish procedures to validate that contracting officers' representatives only accept deliverables that meet task-order requirements.

We also recommend that the Deputy Assistant Secretary of the Navy, Financial Operations, establish procedures requiring contracting officer representatives to communicate changes to the deliverables to the contracting officers.

Management Comments and Our Response

Management comments partially addressed the recommendations. The Commander, Naval Supply Systems Command, agreed with all the recommendations and immediately began modifying existing orders and updating procedures. However, we request that management provide additional comments on recommendation 1.d by February 13, 2014. The Deputy, Financial Operations agreed with our recommendations and will increase contract oversight staff and update technical assistant letters. According to the Deputy's comments, the Navy has provided training to reiterate COR duties. We consider these comments responsive. Please see the Recommendations Table on the next page.

Recommendations Table

Management	Recommendations Requiring Comment	No Additional Comments Required
Deputy Assistant Secretary of the Navy, Financial Operations		2.a and 2.b
Commander, Naval Supply System Command	1.d	1.a, 1.b, 1.c, and 1.e

*Please provide comments by February 13, 2014.



**INSPECTOR GENERAL
DEPARTMENT OF DEFENSE
4800 MARK CENTER DRIVE
ALEXANDRIA, VIRGINIA 22350-1500**

January 13, 2014

MEMORANDUM FOR UNDER SECRETARY OF DEFENSE
(COMPTROLLER)/CHIEF FINANCIAL OFFICER, DoD
NAVAL INSPECTOR GENERAL

SUBJECT: Navy Needs to Improve Contract Oversight of Its Financial Improvement and Audit Readiness Program Contracts (Report No. DODIG-2014-030)

We are providing this final report for review and comment. The Navy did not perform adequate contract oversight related to its Financial Improvement and Audit Readiness efforts. The Navy had limited assurance that \$26.3 million in expended funds as of September 30, 2012, represented the actual quantity of audit readiness services performed and that the services were of sufficient quality.

We considered management comments on a draft of this report when preparing the final report. DoD Directive 7650.3 required that recommendations be resolved promptly. Comments from the Commander, Naval Supply Systems Command were generally responsive; however, comments on Recommendation 1.d were only partially responsive. Therefore, we request additional comments on this recommendation by February 13, 2014.

Please send a Microsoft Word (.doc) file and portable document format (.pdf) file containing your comments to audclev@dodig.mil. Copies of your comments must have the actual signature of the authorizing official for your organization. We are unable to accept the /Signed/ symbol in place of the actual signature. If you arrange to send classified comments electronically, you must send them over the SECRET Internet Protocol Router Network (SIPRNET).

We appreciate the courtesies extended to the staff. Please direct questions to me at (703) 604-8905.

A handwritten signature in cursive script, reading "Amy J. Frontz".

Amy J. Frontz
Principal Assistant Inspector General
for Auditing

Contents

Introduction

Objective	1
Background	1
Review of Internal Controls	4

Finding. Inadequate Contract Oversight

Quality Assurance Surveillance Plans Not Prepared	6
Task Order Changes Not Documented and Incomplete Deliverables Accepted	7
Deliverable Submission Dates Should Be Documented	9
Appointment Letters Must Be Accurate	9
Recommendations, Management Comments, and Our Response	11

Appendixes

Appendix A. Scope and Methodology	15
Use of Computer-Processed Data	15
Use of Technical Assistance	16
Appendix B. Prior Coverage	17
Appendix C. Obligated and Expended Funds as of September 30, 2012	20

Management Comments

Assistant Secretary of the Navy, Financial Operations	22
Naval Supply System Command	25

Acronyms and Abbreviations

Introduction

Objective

The objective of the audit was to determine whether the Navy is performing effective oversight of the contracts for its Financial Improvement and Audit Readiness (FIAR) Program.

Background

The Office of Financial Operations (FMO), headquartered in Washington, D.C., is responsible for the Department of the Navy's (Navy) FIAR Program. FMO uses contractors to perform financial tasks to achieve audit readiness for the Navy and maintain financial-management improvement.

Project Management Office Task Order and Financial Improvement and Audit Readiness Contracts

The Naval Supply System Command, Fleet Logistic Center Norfolk, Philadelphia Office (NAVSUP FLC Philadelphia) awarded one program management office (PMO) task order to Deloitte Consulting against a SeaPort-e contract on August 11, 2011. The SeaPort-e contract is an umbrella service contract the Navy uses to obtain other support services. The PMO task order is a cost-plus-fixed-fee, indefinite-delivery, indefinite-quantity task order for the planning, execution, and oversight of the Navy FIAR Program as well as specific supporting projects. The Navy spent \$5.8 million on this task order as of September 30, 2012.

A cost-plus-fixed-fee contract is a cost-reimbursement contract. The contract provides reimbursement for allowable costs to the extent prescribed in the contract. These contracts establish an estimate of total cost for the purpose of obligating funds and establishing a ceiling the contractor may not exceed (except at its own risk) without the approval of the contracting officer. The fixed fee is a negotiated fee set at the inception of the contract. This contract type permits contracting for efforts that might otherwise present too great a risk to contractors, but it provides the contractor only a minimum incentive to control costs. Indefinite-delivery, indefinite-quantity contracts provide for an indefinite quantity of services for a fixed time.

In addition to the PMO task order, NAVSUP FLC Philadelphia awarded the three cost-plus-fixed-fee, multiple-award, indefinite-delivery, indefinite-quantity FIAR contracts to KPMG, Booz Allen Hamilton, and Accenture National Security Services on April 1, 2010.

These three contract awards are to implement FIAR tasks and actions at select Navy commands and some Navy-level activities. Specifically, there was a universe of 35 task orders as of September 30, 2012. Multiple-award contracting enables the Government to procure services more quickly, using simplified acquisition procedures, while taking advantage of competition to obtain lower prices.

Each contract has an identical performance work statement, and the Navy offers task orders for bidding to all three contractors. Contractors do not have to bid on every task order. No breakdown exists to note which contractor completes which types of work. The total amount of the FIAR task orders was \$44.9 million in expended funds as of September 30, 2012. (See Appendix C for the universe of obligated and expended amounts as of September 30, 2012 per contractor and task order.)

Task Orders Selected for Review

Table 1 identifies the nonstatistical sample of 13 out of 36 task orders for review as of September 30, 2012. (See Appendix A for more information on sample selection.)

Table 1. Sample of 13 Task Orders Selected for Review as of September 30, 2012.

Contractor	Task Order	Obligated Amount	Expended Amount
Deloitte	EX02	\$13,937,309	\$5,819,356
Accenture	0002	5,963,954	4,182,611
	0005	4,286,077	3,161,204
	0007	1,372,157	354,480
	0008	8,350,976	178,735
	0011	2,109,298	-
	0012	710,298	-
Booz Allen Hamilton	1004	12,485,706	6,752,988
	1010	1,195,727	233,961
	1011	4,921,422	583,923
	1013	6,983,806	-
KPMG	2005	3,139,374	1,366,031
	2007	9,327,016	3,696,895
Total	13	\$74,783,120	\$26,330,184

Contracting Personnel

To perform contract oversight, the Navy assigned various personnel, including contracting officers, contracting officers' representatives (CORs), and technical assistants (TAs). A contracting officer is a Government official authorized by a warrant to enter into, administer, or terminate contracts for the Government. NAVSUP FLC, Philadelphia appointed five contracting officers to administer the 36 task orders as of September 30, 2012. A COR is a person authorized in writing by the contracting officer to perform specific technical or administrative functions. The NAVSUP FLC Philadelphia contracting office appointed 11 CORs to its 36 task orders as of September 30, 2012. The TA is the requiring activity representative the Navy may assign to provide technical or administrative assistance to the COR. TAs may be appointed to assist and support the COR but do not have the authority to provide any technical direction or clarification directly to the contractor. The Deputy Director, Office of the Deputy Assistant Secretary Financial Operations, appointed 19 TAs to 19 task orders as of September 30, 2012.

Contract Guidance

Federal Acquisition Regulation (FAR) Section 2.1 states that a contract is a mutually binding legal relationship obligating the seller to furnish services and the buyer to pay for them. It includes all types of commitments that obligate the Government to an expenditure of appropriated funds and requires that, except as otherwise authorized, these commitments be in writing. FAR Section 46.401 states that the quality assurance surveillance plan (QASP) should be prepared in conjunction with the preparation of the statement of work and should specify all work requiring surveillance and the method of surveillance.

The Department of Defense COR Handbook, March 22, 2012, (COR Handbook), states that a QASP is an important tool the COR can use as a guide for systematically and effectively monitoring the quality of the services received, in compliance with the terms of the contract. The COR can also use the COR Handbook as a guide for determining if the Government needs to intercede and perhaps terminate a contract, as well as for determining when to exercise contract options. The QASP details how and when the Government will survey, observe, test, sample, evaluate, and document contractor performance. The Government can adjust the QASP to address contract risk not anticipated or risk that is no longer a risk to contract success.

Naval Supply Systems Command Instruction 4205.3D, "Contracting Officer's Representative," May 5, 2011, (Navy instruction) states that a COR nomination letter

should be forwarded to the contracting officer before contract award. Furthermore, a COR must be appointed in writing before the award of all contracts and orders and may be personally liable for unauthorized acts. This Navy instruction also defines a TA as the requiring activity's representative, who may be assigned to provide technical or administrative assistance to the COR. A TA can review contract or task order deliverables, recommend acceptance or rejection, and provide the COR with documentation to support the recommendation.

Review of Internal Controls

DoD Instruction 5010.40, "Managers' Internal Control Program Procedures," July 29, 2010, requires DoD organizations to implement a comprehensive system of internal controls that provides reasonable assurance that programs are operating as intended and to evaluate the effectiveness of the controls. We identified internal control weaknesses in the Navy FMO oversight of its FIAR Program contracts. The Navy FMO and NAVSUP FLC Philadelphia did not prepare QASPs for 13 task orders; verify that CORs reviewed deliverables meeting the requirements for 2 task orders; record when deliverables were submitted for 7 task orders; properly appoint CORs for 7 task orders; or properly appoint TAs for 4 task orders. This occurred because the contracting officer believed the QASP for the SeaPort-e contract or the performance standards within each task order fulfilled the requirements; Navy FMO reprioritized its audit-readiness focus or believed part of the deliverable was not required; no mechanism was in place to track deliverable submission dates; and the contracting officer and the Deputy Director, Office of the Deputy Assistant Secretary Financial Operations, did not process appointment letters accurately. We will provide a copy of the report to the senior official responsible for internal controls in the Navy.

Finding

Inadequate Contract Oversight

The Navy FMO and NAVSUP FLC Philadelphia did not perform adequate contract oversight on all 13 nonstatistically selected task orders related to the Navy's FIAR efforts as of September 30, 2012. Specifically, the two organizations did not:

- prepare QASPs for 13 task orders;
- verify that the CORs accepted deliverables meeting the requirements for 2 task orders;
- record when deliverables were submitted for 7 task orders;
- properly appoint CORs for 7 task orders; or
- properly assign TAs for 4 task orders.

This occurred because:

- the contracting officer believed the SeaPort-e contract QASP for the PMO task order or the FIAR task order performance standards listed within the performance work statement fulfilled QASP requirements;
- Navy FMO reprioritized its audit-readiness focus and stated part of the deliverable was not required;
- the CORs did not have a mechanism to track when deliverables were submitted; and
- the contracting officer and the Deputy Director, Office of the Deputy Assistant Secretary Financial Operations, did not process appointment letters accurately.

As a result, the Navy FMO and NAVSUP FLC Philadelphia had limited assurance on the quality of audit-readiness services totaling \$26.3 million in expended funds as of September 30, 2012. In addition, without appropriate contract surveillance, the Navy might not meet its FIAR goals.

Oversight Problems Identified by Task Order

Table 2 details the five oversight problem areas identified during the review of 13 task orders: QASP not prepared, deliverables not supported, deliverables submission dates not documented, and CORs and TAs not properly appointed.

Table 2. Results by Task Order of Inadequate Oversight

Contractor	Task Order	QASP Not Prepared	Deliverables Not Supported	Deliverables Submission Dates Not Documented	CORs Not Properly Appointed	TAs Not Properly Appointed
Deloitte	EX02	X	X	X		*
Accenture	0002	X		X		X
	0005	X		X		*
	0007	X				X
	0008	X			X	
	0011	X			X	*
	0012	X			X	*
Booz Allen Hamilton	1004	X	X	X		
	1010	X		X	X	*
	1011	X			X	X
	1013	X			X	*
KPMG	2005	X		X	X	*
	2007	X		X		X
Total	13	13	2	7	7	4

* = No TA assigned to the task order.

X = Problem identified.

Quality Assurance Surveillance Plans Not Prepared

The Government performs quality assurance to determine whether a contractor met the contract performance standards. The QASP is the Government's surveillance document used to verify that the contractor met the standards for each performance task. The QASP prepared in conjunction with the statement of work outlines the functions, including acceptance of deliverables and inspections, that a COR should perform to determine whether a contractor fulfilled the contract obligations pertaining to quality and quantity. It should be prepared in conjunction with the statement of work to specify all work requiring surveillance and the method of surveillance. The QASP should also specify how the COR inspects and accepts deliverables to meet the task order performance work standards.

The contracting officers did not prepare QASPs for 13 task orders reviewed.

The contracting officers did not prepare QASPs for the 13 task orders reviewed. NAVSUP FLC Philadelphia personnel stated the SeaPort-e contract QASP applied to the PMO task order, while performance standards listed within the performance work statement fulfilled the QASP requirements for the 12 FIAR task orders. The three contracting officers responsible for the 13 task orders misunderstood the QASP requirements. Each individual task order should have a QASP; however, NAVSUP FLC Philadelphia personnel did not provide a QASP for the 13 task orders reviewed. Additionally, performance standards included in the performance work statements for the 12 FIAR task orders neither fulfill nor replace the requirements for a Government-prepared QASP. Performance standards within each task order establish the Government's performance-level requirements for contractors. These standards are measurable and structured to permit an assessment of the contractor's performance. The contracting officers were not systematically and effectively monitoring the quality of the \$26.3 million in services received in accordance with FAR Section 46.401 as of September 30, 2012.

The CORs did not have a plan when inspecting the deliverables for quality because the contracting officer did not prepare a QASP for the CORs to use. The Office of the Under Secretary of Defense (Acquisition, Technology, and Logistics) published a COR Handbook listing best practices to include in a QASP. NAVSUP FLC Philadelphia should establish procedures to verify that contracting officers develop QASPs for existing and future task orders, in accordance with FAR Section 46.401. Additionally, contracting officers should refer to the COR Handbook for suggested best practices when developing QASPs.

Task Order Changes Not Documented and Incomplete Deliverables Accepted

The CORs accepted nine deliverables that did not meet requirements for two task orders. Specifically, they accepted six incomplete deliverables and changed requirements for three deliverables without documenting the changes. For example, PMO task order, deliverable 4.1.3 required monthly Audit Readiness Plan documents. However, the contractor only provided one document over a 12-month period. In another example, FIAR task order 1004, deliverable 4i required a gap analysis identifying

The CORs accepted nine deliverables that did not meet requirements for two task orders.

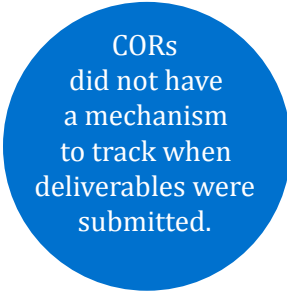
internal-control weaknesses and determining the process improvements necessary for the FY 2012 military pay assertion, but the contractor did not provide this. The contractor instead provided background on what makes up military pay and the military pay budgeting and execution process. The gap analysis deliverable should provide an evaluation of internal controls for the military pay assertion, but it did not. Internal controls are one of the primary areas auditors focus on when collecting evidence to support the fair presentation of financial statement amounts. Internal controls are important for audit readiness because reporting entities must identify and evaluate the risk of material misstatement and then design and implement internal control activities to meet key control objectives that limit risk.

The CORs accepted deliverables that did not meet requirements because Navy FMO reprioritized its audit-readiness focus in accordance with the Navy's FIAR plan and stated part of the requirements for two of the nine deliverables were no longer required. The FIAR Plan defines the Navy's strategy and methodology for improving financial management, prioritizing improvement activity, strengthening internal controls, and achieving auditability. The Navy's FIAR plan summarizes the actions and plans of the Components for achieving auditability, and updates the Navy's progress toward achieving audit readiness, improving financial management, and increasing efficiency in financial operations. Additionally, Navy FMO personnel stated that requirements for part of another deliverable were not required and could not provide a reason why the contractor did not provide the remaining six deliverables.

As a result, NAVSUP FLC Philadelphia spent \$12.6 million for contractor work on two task orders but did not adequately track whether the contractor met the requirements. The Navy is at increased risk for expending obligations for incomplete or inadequate contractor work. Additionally, requirements for the task orders changed without contract modifications or documentation supporting the changes. NAVSUP FLC Philadelphia should establish procedures to validate that CORs only accept deliverables that meet task-order requirements and establish procedures to validate that contracting officers execute modifications or document all changes to the deliverables in their contract files. Additionally, the Deputy Assistant Secretary of the Navy, Financial Operations, should establish procedures requiring CORs to communicate changes to the deliverables to the contracting officers.

Deliverable Submission Dates Should Be Documented

The CORs did not document the submission dates for deliverables associated with 7 of the 13 task orders. For the remaining six task orders, a COR developed his own tracking method to document the deliverable submission date for one task order; two task orders did not specify deliverable submission dates; and three task orders had submission dates beyond the audit review cutoff date of September 30, 2012.



CORs did not have a mechanism to track when deliverables were submitted.

Typically, the contractor submits deliverables to the Navy through the Financial Improvement Program tool, which does not maintain a log or history of deliverable submissions. Only one COR adequately developed a method to track submission dates, by logging deliverable due dates into a Word document and keeping the contractor's submission e-mail in his contract file. The remaining CORs did not track deliverable submission dates. On FIAR task order 0002, there were 15 deliverables whose submission dates were not tracked. For example, deliverable 4d. required substantive testing of the statement of budgetary resources, which was not tracked; therefore, the milestone may have been missed. This occurred because these CORs did not have a mechanism, as required by the Navy instruction, to track when contractors submitted deliverables. The Navy instruction states the COR should keep a copy of all submission documents and develop a system showing all due dates. As a result, there is no assurance that contractors submitted deliverables on time for seven of the task orders. Late submission of deliverables could affect the timelines for Navy audit readiness. NAVSUP FLC Philadelphia should establish a mechanism for CORs to track the date contractors submit deliverables.

Appointment Letters Must Be Accurate

The contracting officers did not properly appoint CORs for 7 of 13 task orders. COR appointment letters did not exist for one of seven task orders, and the signatures on the remaining six appointment letters occurred after task-order award. For example, one COR performed COR duties over 6 months without an appointment letter. In another example, a COR was listed in a task order on May 7, 2012, but the appointment letter was not signed until January 25, 2013. The COR was performing COR duties for over 8 months without being appointed in writing.

NAVSUP FLC Philadelphia and Navy FMO personnel cited several reasons for the discrepancies, including administrative oversight and extenuating circumstances.

Specifically, some discrepancies occurred because three contracting officers did not follow the Navy instruction. The Navy instruction states that the contracting officer should appoint the COR in writing before awarding the contract and should identify the COR in the contract. Additionally, the contracting officer must modify the contract when the appointment is terminated. A signed appointment letter holds the COR personally liable for unauthorized acts and certifies the information to the best of his or her knowledge.

Moreover, the Deputy Director, Office of the Deputy Assistant Secretary Financial Operations, did not properly appoint some TAs. For 10 TAs he assigned to 6 of 13 task orders, 7 TAs were not properly appointed, affecting 4 task orders. TA appointment letters contained discrepancies; for example, some were not signed and/or dated or were signed late. One TA signed and dated her appointment letter on August 7, 2012, but in an interview stated she became the TA in September 2011. Therefore, she performed TA duties for about a 1 year without a proper appointment. Navy FMO provided several reasons for the discrepancies, including a lack of administrative oversight and administrative delay. These discrepancies occurred because the Deputy Director, Office of the Deputy Assistant Secretary Financial Operations, did not follow the Navy instruction. It states that the commanding officer or a designee may appoint a TA to assist the COR in executing routine administration and monitoring duties. Furthermore, the TA appointment must be in writing.

As a result, it will be difficult for the contracting officers and the Deputy Director, Office of the Deputy Assistant Secretary Financial Operations, to identify which COR is accountable during a specific period, or which TA should be fulfilling all duties, if needed. NAVSUP FLC Philadelphia should work with the contracting officers and Deputy Assistant Secretary of the Navy, Financial Operations, to establish a control procedure to verify that COR and TA appointment letters are properly appointed in accordance with the Navy instruction.

Recommendations, Management Comments, and Our Response

1. **We recommend that the Site Director of the Naval Supply System Command, Fleet Logistics Center Norfolk, Philadelphia Office:**
 - a. **establish procedures to verify that contracting officers develop a quality assurance surveillance plan for existing and future task orders, in accordance with the Federal Acquisition Regulation Section 46.401. Additionally, contracting officers should refer to the Department of Defense COR Handbook, March 22, 2012, for suggested best practices when developing a quality assurance surveillance plan.**

Commander, Naval Supply Systems Command Comments

The Commander, Naval Supply Systems Command, agreed with our recommendation and plans to establish a pre-solicitation procedure by March 1, 2014. This will include a determination of whether a quality assurance surveillance plan should be required with each delivery order under either a multiple-award or single-award task-order contract.

Our Response

The Commander's response addressed all the specifics of the recommendation, and no additional comments are required.

- b. **establish procedures to validate that contracting officers' representatives only accept deliverables that meet task-order requirements;**

Commander, Naval Supply Systems Command Comments

The Commander, Naval Supply Systems Command, agreed with our recommendation and stated a process already exists to validate that contracting officers' representatives accept only deliverables that meet task-order requirements. The current version of the Naval Supply Systems Command contracting officers' representative's appointment letter requires the contracting officers' representatives to maintain a contract file for each contract/task order, and this letter lists all the documents that must be maintained as part of the contracting officers' representative's contract file. Additionally, per the latest contracting officer's representative instruction, contracting officers are required to meet annually with the contracting officers' representatives and review the contracting officers' representatives' files. These meetings provide contracting officers the ability to determine if contracting officers' representatives are properly reviewing deliverables.

Our Response

The Commander's response addressed all the specifics of the recommendation, and no additional comments are required.

- c. establish procedures to validate that contracting officers execute modifications or document all changes to the deliverables in their contract files;**

Commander, Naval Supply Systems Command Comments

The Commander, Naval Supply Systems Command, agreed. The Commander stated that a procedure already exists to document changes to deliverables in the contract file. The current Naval Supply Systems Command contracting officer representative's instruction, Naval Supply Systems Command Instruction 4205.3E, "Contracting Officer's Representative," May 28, 2013, requires the contracting officer representative to identify new contract requirements and changes as they occur. Additionally, a contracting officer representative should not make any commitments or changes that will affect price, quality, quantity, delivery, or any other term or condition of the contract.

Our Response

The Commander's response addressed all the specifics of the recommendation, and no additional comments are required.

- d. establish a mechanism for contracting officers' representatives to track the dates deliverables are submitted;**

Commander, Naval Supply Systems Command Comments

The Commander, Naval Supply Systems Command, agreed. The Commander stated a mechanism already exists where contracting officers' representatives track submission of deliverables. As discussed above, the current version of the Naval Supply Systems Command contracting officer's representative's appointment letter requires each contracting officer's representative to maintain a contract file for each contract/task order. This letter lists all the documents that must be maintained as part of the contracting officer's representative's contract file. These required documents include a copy of all contractor data and Contract Data Requirements List submissions, which enable the contracting officer's representative to track the dates Contract Data Requirements Lists are submitted.

Our Response

The Commander's response partially addressed the recommendation. Using the Contract Data Requirements List will not provide documentation for the actual dates deliverables are submitted. The Contract Data Requirements List only shows the dates the deliverables are due. Therefore, the Commander needs to establish a procedure or specific instruction to document the date the deliverable is submitted, to ensure auditability. We request that the Commander, Naval Supply Systems Command provide additional comments to the recommendation by February 13, 2014.

- e. **establish a control procedure to verify that contracting officers' representatives' appointment letters are properly prepared and issued in accordance with the Naval Supply Systems Command Instruction 4205.3D, "Contracting Officer's Representative," May 5, 2011.**

Commander, Naval Supply Systems Command Comments

The Commander, Naval Supply Systems Command, agreed with our recommendation and stated that a process already exists to review all contracting officers' representatives' appointment letters in accordance with its revised Naval Supply Systems Command Self-Assessment Plan Guidebook.

Our Response

The Commander's response addressed all the specifics of the recommendation, and no additional comments are required.

- 2. **We recommend the Deputy Assistant Secretary of the Navy, Financial Operations:**
 - a. **establish procedures requiring contracting officers' representatives to communicate changes to the deliverables to the contracting officers.**

Deputy Assistant Secretary of the Navy, Financial Operations Comments

The Deputy Assistant Secretary of the Navy, Financial Operations, agreed with our recommendation and held refresher training to reiterate contracting officers' representatives' appointment responsibilities. Moreover, the addition of staff by May 31, 2014, will strengthen the Navy's ability to centrally track deliverable changes.

Our Response

The Deputy Assistant Secretary's response addressed all the specifics of the recommendation, and no additional comments are required.

- b. establish a control procedure to verify that technical assistant appointment letters are properly prepared and issued in accordance with the Naval Supply Systems Command Instruction 4205.3D, "Contracting Officer's Representative," May 5, 2011.**

Deputy Assistant Secretary of the Navy, Financial Operations Comments

The Deputy Assistant Secretary of the Navy, Financial Operations, agreed with our recommendation and stated that his organization implemented an internal control procedure to verify technical assistant letters are prepared in accordance with the Naval Supply Systems Command Instruction 4205.3D, "Contracting Officer's Representative," May 5, 2011. This new procedure requires Financial Operations procurement staff to identify a requirement for technical assistants and tailor specific technical assistant responsibilities required by the Contract and the contracting officers' representative. Additionally, the designated Financial Operations representative and Division Director will sign the technical assistant appointment letters, and the technical assistant appointee will acknowledge the letters. Furthermore, it will be the responsibility of the contracting officer's representative to notify Financial Operations procurement staff of the need to terminate technical assistant appointments. Finally, Financial Operations procurement staff should brief the status of Financial Operations contracting officers' representative and technical assistant (active, pending, and terminated appointments) at Quarterly Program Reviews.

Our Response

The Deputy Assistant Secretary's response addressed all the specifics of the recommendation, and no additional comments are required.

Appendix A

Scope and Methodology

We conducted this performance audit from August 2012 through October 2013 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 finding and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our finding and conclusions based on our audit objective.

Our review focused on the Navy's oversight of its FIAR Program audit readiness contracts. The universe consisted of one PMO task order to Deloitte Consulting against a SeaPort-e contract and three FIAR contracts to KPMG, Booz Allen Hamilton, and Accenture National Security Services, for a total of 36 task orders and \$123.3 million in obligations as of September 30, 2012. See Appendix C for the obligated and expended amounts as of September 30, 2012, per contractor and task order. A total of 11 CORs were assigned to one or more of the 36 task orders. The audit team used the DoD OIG Quantitative Methods Division to determine the best sampling methodology. We selected a nonstatistical sample of 10 CORs and reviewed 13 of their task orders. A total of 3 contracting officers were assigned to the 13 task orders sampled.

We requested the QASP for each of the 13 task orders, to compare them with FAR Section 46.401. The CORs identified the deliverables for the 13 task orders, and we requested the supporting documentation. We reviewed the support for the 13 task orders, analyzing whether each fulfilled the performance work statement requirements. We determined if the deliverable was submitted on time and verified whether CORs and TAs were appointed properly for work performed within the cutoff date of September 30, 2012. We performed site visits at the Washington, D.C., Navy Yard. We interviewed 2 contracting officers, 9 CORs, and 10 TAs from our sample, to understand how they perform contractor oversight.

Use of Computer-Processed Data

We obtained data from the Standard Accounting and Reporting System. The data we used did not directly affect the outcome of the finding. We used the data to identify the dollar amounts expended as of September 30, 2012. In addition, because the fundamental business processes related to the audit objective did not rely on information systems, we determined we did not have to assess system and general controls over the Standard Accounting and Reporting System.

Use of Technical Assistance

We held discussions with personnel from the DoD OIG Quantitative Methods Division. We selected a nonstatistical sample of 13 out of 36 task orders as of September 30, 2012. We reviewed the 13 task orders for adequate contract oversight.

Appendix B

Prior Coverage

During the last 5 years, the Government Accountability Office (GAO) and the DoD IG issued 30 reports discussing financial improvement and audit readiness or contract oversight. Unrestricted GAO reports can be accessed over the Internet at <http://www.gao.gov>. Unrestricted DoD IG reports can be accessed at <http://www.dodig.mil/audit/reports>.

GAO

Report No. GAO-12-444T, "The Federal Government Faces Continuing Financial Management and Long-Term Fiscal Challenges," March 2012

Report No. GAO-12-132, "Ongoing Challenges with Reconciling Navy and Marine Corps Fund Balance with Treasury," December 2011

Report No. GAO-12-177T, "Challenges in the Implementation of Business Systems Could Impact Audit Readiness Efforts," October 2011

Report No. GAO-11-851, "Improvement Needed in DoD Components' Implementation of Audit Readiness Effort," September 2011

Report No. GAO-11-830, "Marine Corps Statement of Budgetary Resources Audit Results and Lessons Learned," September 2011

Report No. GAO-11-864T, "Numerous Challenges Must Be Addressed to Achieve Auditability," July 2011

Report No. GAO-11-331T, "Role in Helping Ensure Effective Oversight and Reducing Improper Payments," February 2011

Report No. GAO-11-53, "Improved Management Oversight of Business System Modernization Efforts Needed," October 2010

DoD IG

Report No. DoDIG-2013-037, "Quality Controls for the Rotary Wing Transport Contracts Performed in Afghanistan Need Improvement," January 2013

Report No. DoDIG-2013-007, "Award and Administration of Multiple Award Contracts at Naval Facilities Engineering Command Specialty Centers Need Improvement," October 2012

Report No. DoDIG-2012-134, "Contingency Contracting: A Framework for Reform-2012 Update," September 2012

Report No. DoDIG-2012-115, "Improved Oversight, but No Invoice Reviews and Potential Antideficiency Act Violation May Have Occurred on the Kuwait Observer Controller Team Task Orders," August 2012

Report No. DoDIG-2012-108, "Questionable Data Cast Doubt on the Need for Continuing the Defense Transportation Coordination Initiative," August 2012

Report No. DoDIG-2012-111, "Enterprise Resource Planning Systems Schedule Delays and Reengineering Weaknesses Increase Risks to DoD's Auditability Goals," July 2012

Report No. DoDIG-2012-104, "DoD Needs to Improve Vocational Training Efforts to Develop the Afghan National Security Forces Infrastructure Maintenance Capabilities," June 2012

Report No. DoDIG-2012-087, "Logistics Modernization Program System Procure-to-Pay Process Did Not Correct Material Weaknesses," May 2012

Report No. DoDIG-2012-066, "General Fund Enterprise Business System Did Not Provide Required Financial Information," March 2012

Report No. DoDIG-2012-033, "Award and Administration of Multiple Award Contracts for Services at U.S. Army Medical Research Acquisition Activity Need Improvement," December 2011

Report No. D-2011-108, "Geothermal Energy Development Project at Naval Air Station Fallon, Nevada, Did Not Meet Recovery Act Requirements," September 2011

Report No. D-2011-072, "Previously Identified Deficiencies Not Corrected in the General Fund Enterprise Business System Program," June 2011

Report No. D-2011-047, "Improvements Needed in Contract Administration of the Subsistence Prime Vendor Contract for Afghanistan, March 2011

Report No. D-2011-032, "Logistics Civil Augmentation Program Support Contract Needs to Comply With Acquisition Rules," January 2011

Report No. D-2010-068, "Government Oversight of Field Service Representative and Instructor Services in Support of the Mine Resistant Ambush Protected Vehicle Program," June 2010

Report No. D-2010-059, "Contingency Contracting: A Framework for Reform," May 2010

Report No. D-2010-047, "Repair and Maintenance Contracts for Aircraft Supporting Coalition Forces in Afghanistan, Iraq, and Kuwait," March 2010

Report No. D-2010-002, "Summary of DoD Office of the Inspector General Audits of Financial Management," October 2009

Report No. D-2009-109, "Contracts Supporting the DoD Counter Narcoterrorism Technology Program Office," September 2009

Report No. D-2009-096, "Contracts for the U.S. Army's Heavy-Lift VI Program in Kuwait," July 2009

Report No. D-2009-095, "Contracting for Transportation Services for U.S. Army Corps of Engineers, Gulf Region Division," July 2009

Report No. D-2009-082, "SeaPort Enhanced Program," May 2009

Appendix C

Obligated and Expended Funds as of September 30, 2012

Contractor	Task Order	Obligated Funds	Expended Funds
Deloitte	EX02*	\$ 13,937,309	\$ 5,819,356
Total	1	\$ 13,937,309	\$ 5,819,356
Accenture	0001	\$32,326	\$15,235
	0002*	5,963,954	4,182,611
	0003	3,200,513	2,701,322
	0004	1,928,274	1,858,407
	0005*	4,286,077	3,161,204
	0006	2,603,588	1,149,118
	0007*	1,372,157	354,480
	0008*	8,350,976	178,735
	0009	256,686	-
	0010	1,817,451	-
	0011*	2,109,298	-
	0012*	710,298	-
Total	12	\$32,631,598	\$13,601,111
Booz Allen Hamilton	1001	\$28,447	\$22,493
	1002	858,933	830,515
	1003	2,997,444	3,423,940
	1004*	12,485,706	6,752,988
	1005	277,658	321,886
	1006	3,338,382	1,101,492
	1007	1,887,746	1,020,417
	1008	2,886,498	1,220,770
	1009	3,186,381	1,385,185
	1010*	1,195,727	233,961
	1011*	4,921,422	583,923
	1012	1,860,976	-
	1013*	6,983,806	-
Total	13	\$42,909,126	\$16,897,569

Contractor	Task Order	Obligated Funds	Expended Funds
KPMG	2001	\$32,548	\$24,080
	2002	1,373,948	1,300,595
	2003	3,535,655	3,256,326
	2004	358,679	355,637
	2005*	3,139,374	1,366,031
	2006	2,359,973	1,042,928
	2007*	9,327,016	3,696,895
	2008	10,032,641	3,313,432
	2009	2,108,299	-
	2010	1,534,072	-
Total	10	\$33,802,205	\$14,355,923
Grand Total	36	\$123,280,238	\$50,673,959

*13 sample items selected for review.

Management Comments

Assistant Secretary of the Navy, Financial Operations



DEPARTMENT OF THE NAVY
OFFICE OF THE ASSISTANT SECRETARY
(FINANCIAL MANAGEMENT AND COMPTROLLER)
1000 NAVY PENTAGON
WASHINGTON, DC 20350-1000

DEC 12 2013

MEMORANDUM FOR ASSISTANT INSPECTOR GENERAL FOR AUDIT POLICY
AND OVERSIGHT, OFFICE OF THE INSPECTOR
GENERAL, DEPARTMENT OF DEFENSE

SUBJECT: Draft response to Department of Defense Office of Inspector General
Draft Report, Navy Needs to Improve Contract Oversight of Its Financial
Improvement and Audit Readiness Program Contract (Project No. D2012
D000DE-0192.000) dated 30 October 2013

This memorandum responds to the subject report issued on 20 October 2013. The responses in this memorandum are in response to the recommendations addressed to the Office of Financial Operations (FMO).

Department of Defense Office of Inspector General (DoDIG) Draft Report, Recommendations 2. (a) - Page 11

a. DoDIG Draft Report Recommendation: We recommend the Deputy Assistant Secretary of the Navy (Financial Operations) (DASN (FO)) establish procedures requiring Contracting Officers' Representatives (COR) to communicate changes to the deliverables to the contracting officers.

b. Navy Response to Draft Report Recommendation: CONCUR. Procedures, as outlined in COR appointment letters and Naval Supply Systems Command Instruction 4205.3D "Contracting Officer's Representative," May 5, 2011, have been reiterated via training held in August 2013, to require CORs to communicate changes to the deliverables to the contracting officer. The procedure is strengthened by centrally tracking deliverables changes in a weekly workload report between the contracting office and FMO procurement staff. In addition, to alleviate oversight bandwidth challenges, FMO has increased CORs from 12 to 16 with a target of appointing 22 CORs by the end of FY14. Finally, FMO is planning to increase procurement staff from 2 to 4 billets with a target on board date of 31 May 2014.

DoDIG Draft Report, Recommendations 2. (b) - Page 11

a. DoDIG Draft Report Recommendation: We recommend the DASN (FO) establish a control procedure to verify that technical assistant appointment letters are properly prepared and issued in accordance with the Naval Supply Systems Command Instruction 4205.3D, "Contracting Officer's Representative," May 5, 2011.

b. Navy Response to Draft Report Recommendation: CONCUR. FMO has implemented an internal control procedure to verify that technical appointment letters are prepared in accordance with the Naval Supply Systems Command Instruction 4205.3D, "Contracting Officer's Representative," May 5, 2011. The internal control procedure comprised of an internal

Assistant Secretary of the Navy, Financial Operations (cont'd)

memorandum (attachment 1) outlines the roles, responsibilities, and reporting requirements for TA appointments and terminations. FMO is in the process of updating all TA letters with a target completion date of 28 Feb 2014. TA appointments will be reported and validated at FMO Quarterly Program Reviews.



STEVEN R. QUENTMEYER
Deputy, Financial Operations
ASN (FM&C) FMO

Attachments:
As stated

Assistant Secretary of the Navy, Financial Operations (cont'd.)



DEPARTMENT OF THE NAVY
OFFICE OF THE ASSISTANT SECRETARY
(FINANCIAL MANAGEMENT AND COMPTROLLER)
1000 NAVY PENTAGON
WASHINGTON, DC 20350-1000

5216
FMO-C/05

DEC 11 2013

From: Associate Director, Operations Management
To: FMO Divisions

Subj: TECHNICAL ASSISTANT APPOINTMENT INTERNAL MEMORANDUM

Ref: (a) Naval Supply Systems Command Instruction 4205.3D
of May 5, 2011
(b) Sample TA appointment letter

1. Technical Assistant (TA) appointment letters shall be prepared in accordance with reference (a).
2. FMO procurement analyst, in conjunction with the applicable Contract Contracting Officer Representative (COR) and the Contracting Officer, shall identify a requirement for TA and leverage reference (a) and (b) to conduct appointments and terminations of TA's. Reference (b) is an example appointment letter that shall be tailored to the specific TA responsibilities required by the Contract and the COR.
3. TA appointment letters shall be signed by the designated FMO representative, Division Director of (New Division) and acknowledged by the TA appointee.
4. It is the responsibility of the COR to notify FMO procurement analyst staff of the need to terminate TA appointments.
5. FMO Procurement Staff shall brief FMO COR and TA status (active pending, and terminated appointments) at Quarterly Program Reviews.


J.K. PATTON
CAPT, USN

Distribution:
FMO-1
FMO-2
FMO-3
FMO-4
FMO-5

Naval Supply System Command



DEPARTMENT OF THE NAVY
NAVAL SUPPLY SYSTEMS COMMAND
5450 CARLISLE PIKE
PO BOX 2050
MECHANICSBURG PA 17055-0791

TELEPHONE NUMBER
COMMERCIAL
AUTOVON
IN REPLY REFER TO:

7510
Ser NOIG/038
DEC 06 2013


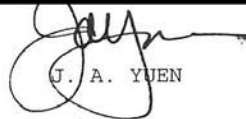
From: Commander, Naval Supply Systems Command
To: Department of Defense Office of Inspector General,
Program Director for Financial Management
Reporting

Subj: DODIG DRAFT AUDIT REPORT - NAVY NEEDS TO IMPROVE CONTRACT
OVERSIGHT OF ITS FINANCIAL IMPROVEMENT AND AUDIT
READINESS PROGRAM CONTRACTS (D2012-D0000DE-0192.000)

Ref: (a) DoD Directive 7650.3 of 3 Jun 04

Encl: (1) DODIG Draft Report, "Navy Needs to Improve Contract
Oversight of Its Financial Improvement and Audit
Readiness Program Contracts" (Project No. D2012-
D000DE-0192.000) of 30 October 2013

1. Per reference (a), enclosure (1) provides our comments on
Recommendations 1.a, 1.b, 1.c, 1.d, and 1.e.
2. For any questions, please contact our Chief of Staff,



J. A. YUEN

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Naval Supply System Command (cont'd)

**DEPARTMENT OF DEFENSE INSPECTOR GENERAL (DODIG) DRAFT REPORT,
"Navy Needs to Improve Contract Oversight of Its Financial
Improvement and Audit Readiness Program Contracts" (Project No.
D2012-D000DE-0192.000) OF 30 OCTOBER 2013**

Finding- Inadequate Contract Oversight: The Navy Financial Office and Naval Supply Systems Command (NAVSUP), Fleet Logistics Center Norfolk (FLCN), Philadelphia Office, did not perform adequate contract oversight on all 13 sampled task orders related to the Navy's Financial Improvement and Audit Readiness efforts as of September 30, 2012.

Specifically, the two organizations did not:

- prepare quality assurance surveillance plans (QASPs) for 13 task orders;
- verify that the contracting officer's representatives (CORs) accepted deliverables meeting the requirements for 2 task orders;
- record when deliverables were submitted for 7 task orders;
- properly appoint CORs for 7 task orders;
- properly assign technical assistants for 4 task orders.

This occurred because:

- 1) the contracting officer believed the SeaPort-e contract QASP for the PMO task order or the FIAR task order performance standards listed within the performance work statement fulfilled QASP requirements;
- 2) Navy FMO reprioritized its audit readiness focus and stated part of the deliverable was not required;
- 3) the CORs did not have a mechanism to track when deliverables were submitted; and
- 4) the contracting officer and the Deputy Director, Office of the Deputy Assistant Secretary Financial Operations, did not process appointment letters accurately.

As a result, the Navy FMO and NAVSUP FLC Philadelphia had limited assurance on the quality of audit readiness services totaling \$26.3 million in expended funds as of September 30,

Enclosure (1)

Naval Supply System Command (cont'd)

2012. In addition, without appropriate contract surveillance, the Navy might not meet its FIAR goals.

Recommendations: We recommend that the Site Director of the Naval Supply Systems Command, Fleet Logistics Center Norfolk, Philadelphia Office:

Recommendation 1.a.: establish procedures to verify that contracting officers develop a quality assurance surveillance plan for existing and future task orders, in accordance with the Federal Acquisition Regulation Section 46.401. Additionally, contracting officers should refer to the Department of Defense COR Handbook, March 22, 2012, for suggested best practices when developing a quality assurance surveillance plan.

NAVSUP Response: Concur. FAR 46.401 does not specifically address whether Quality Assurance Surveillance Plans (QASPs) must be prepared at the order level. However, as indicated in the report, all 13 task orders included performance standards which stipulate a required performance level which the contractor is required to achieve and by which the Contracting Officer's Representative (COR) can monitor performance. It is noted that the contracting office is in the process of modifying existing orders to include a separately identifiable QASP.

Additionally, Naval Supply Systems Command (NAVSUP) agrees that in some cases, depending on the complexity of the requirement, a QASP should be required for each task order under a task order contract. NAVSUP will update their pre-solicitation documentation requirements by 1 March 2014 to include a determination whether a QASP should be required with each delivery order under either a multiple award or single award task order contract.

Enclosure (1)

Naval Supply System Command (cont'd)

Recommendation 1.b.: establish procedures to validate that contracting officers' representatives only accept deliverables that meet task order requirements;

NAVSUP Response: Concur. The process already exists to validate that CORs only accept deliverables that meet task order requirements. The current version of the NAVSUP COR appointment letter requires the COR to maintain a contract file for each contract/task order and this letter lists all the documents that must be maintained as part of the COR's contract file. These required documents include a copy of all contractor data/Contract Data Requirements List (CDRL) submissions and the COR's analysis of these submissions. Under NAVSUP service contracts, CDRL submissions represent the deliverables, and the COR is responsible for evaluating the CDRL submissions. Additionally, per the latest COR instruction, contracting officers are required to meet annually with CORs and to review the COR's files. These meetings provide contracting officers the ability to determine if CORs are properly reviewing deliverables.

Enclosure (1)

Naval Supply System Command (cont'd)

Recommendation 1.c.: establish procedures to validate that contracting officers execute modifications or document all changes to the deliverables in their contract files;

NAVSUP Response: Concur. A procedure already exists to document changes to deliverables in the contract file. The current NAVSUP COR instruction, NAVSUPINST 4205.3E dated 28 May 2013, requires the COR to identify new contract requirements and changes as they occur. The instruction further stipulates the COR shall "not make any commitments or changes that will affect price, quality, quantity, delivery, or any other term or condition of the contract." Essentially, the latest COR instruction applies to all changes to the contract/delivery order. Additionally, per the latest COR instruction, contracting officers are already required to meet annually with CORs and to review the COR's files. These meetings provide contracting officers the ability to determine if CORs are properly documenting potential changes to the contract/delivery order and that those changes are properly communicated.

Enclosure (1)

Naval Supply System Command (cont'd)

Recommendation 1.d.: establish a mechanism for contracting officers' representatives to track the dates deliverables are submitted;

NAVSUP Response: Concur. A mechanism already exists where contracting offices' representatives track submission of deliverables. As discussed in 1b above, the current version of the NAVSUP COR appointment letter requires the COR to maintain a contract file for each contract/task order and this letter lists all the documents that must be maintained as part of the COR's contract file. These required documents include a copy of all contractor data/CDRL submissions which enable the COR to track the dates CDRLs are submitted. Again, as discussed in paragraph 1b above, under NAVSUP service contracts, CDRL submissions represent the deliverables. Additionally, per the latest COR instruction, contracting officers are required to meet annually with CORs and to review the CORs files. These meetings provide contracting officer the ability to validate that CORs are properly reviewing deliverables and the dates those deliverables are submitted.

Naval Supply System Command (cont'd)

Recommendation 1.e.: establish a control procedure to verify that contracting officers' representatives' appointment letters are properly prepared and issued in accordance with the Naval Supply Systems Command Instruction 4205.3D, "Contracting Officer's Representative," May 5, 2011.

NAVSUP Response: Concur. NAVSUP has already established a process to review contracting officers' representatives' appointment letters. In August 2013, NAVSUP issued its revised Self-Assessment Plan Guidebook to include specific metrics on COR appointments in accordance with the requirements of Defense Federal Acquisition Regulation Supplement, Procedures Guidance and Information 201.602-2(iv)(A) as implemented by NAVSUPINST 4205.3E, "Contracting Officer's Representative", issued 28 May 2013. Specifically, the NAVSUP Self-Assessment Plan Guidebook requires a tri-annual review of a random sample of service actions requiring COR appointment. The NAVSUP Self-Assessment Plan Guidebook prescribes the sample size and requires 100% compliance with COR nomination procedures in order to obtain a "green" rating.

Enclosure (1)

Acronyms and Abbreviations

COR	Contracting Officer's Representative
FAR	Federal Acquisition Regulation
FIAR	Financial Improvement and Audit Readiness
FMO	Office of Financial Operations
NAVSUP FLC	Naval Supply Systems Command Fleet Logistic Center
PMO	Program Management Office
QASP	Quality Assurance Surveillance Plan
TA	Technical Assistant

Whistleblower Protection

U.S. DEPARTMENT OF DEFENSE

The Whistleblower Protection Enhancement Act of 2012 requires the Inspector General to designate a Whistleblower Protection Ombudsman to educate agency employees about prohibitions on retaliation, and rights and remedies against retaliation for protected disclosures. The designated ombudsman is the DoD IG Director for Whistleblowing & Transparency. For more information on your rights and remedies against retaliation, go to the Whistleblower webpage at www.dodig.mil/programs/whistleblower.

For more information about DoD IG reports or activities, please contact us:

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