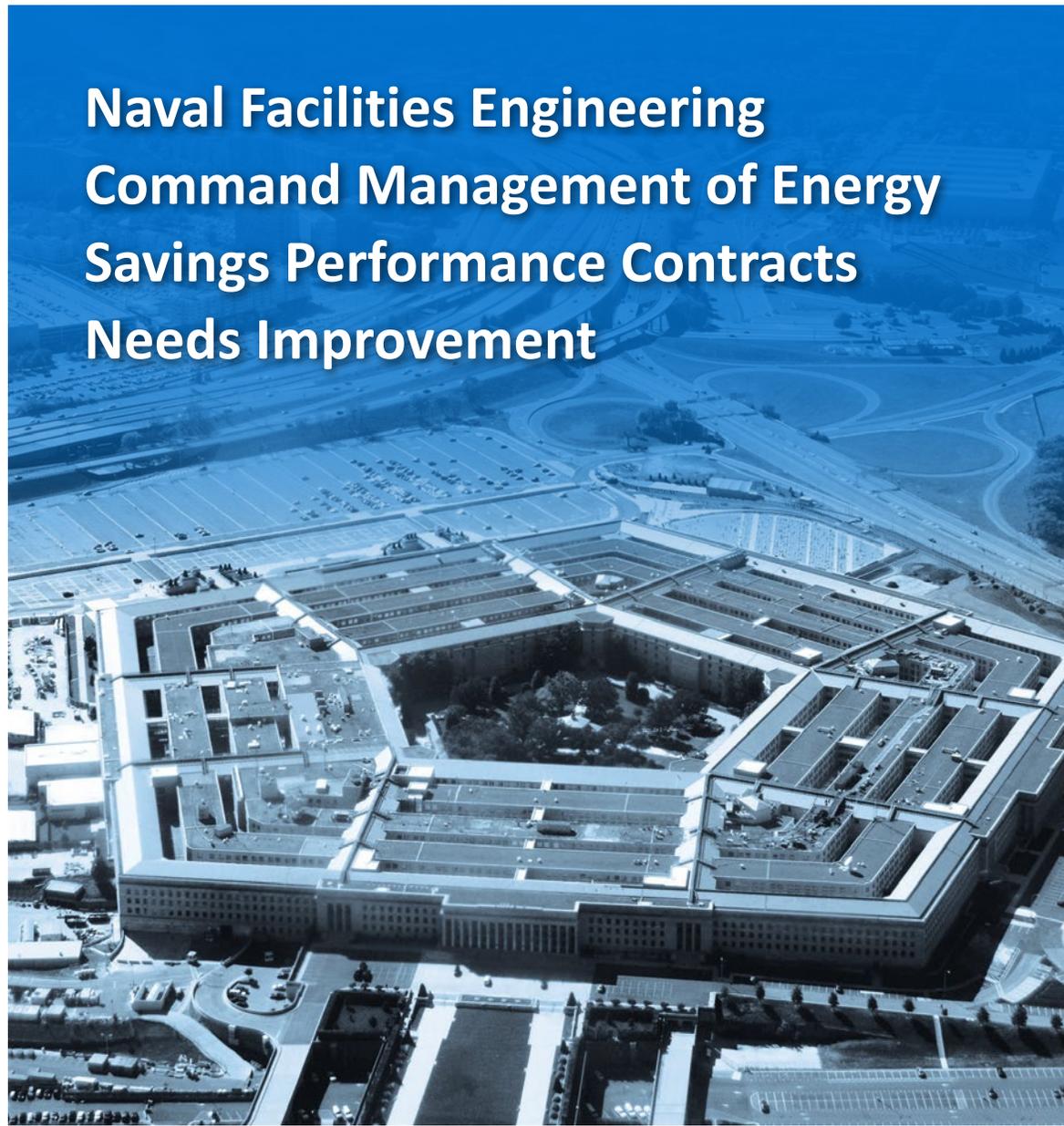




INSPECTOR GENERAL

U.S. Department of Defense

JANUARY 26, 2017



Naval Facilities Engineering Command Management of Energy Savings Performance Contracts Needs Improvement

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Results in Brief

Naval Facilities Engineering Command Management of Energy Savings Performance Contracts Needs Improvement

January 26, 2017

Objective

We determined whether the Department of the Navy was effectively managing energy savings performance contracts (ESPCs). This report is the third in a series on DoD ESPCs.

ESPCs provide a way for the private sector to finance Federal Government energy-savings projects. Naval Facilities Engineering Command (NAVFAC) Expeditionary Warfare Center, Port Hueneme, California, manages the Navy ESPC program.

We reviewed all 38 ongoing performance-phase ESPCs to determine whether NAVFAC officials appointed contracting officer's representatives and developed quality assurance surveillance plans. In addition, we nonstatistically selected five ongoing performance-phase ESPC projects for a more detailed review to determine whether NAVFAC officials verified that the energy savings reported in the contractor's post-installation¹ and measurement and verification reports² are accurate, and that Government payments to the contractor do not exceed the verified savings.

¹ The post-installation report is a contractor-submitted report that summarizes the project's construction phase results and identifies any energy savings achieved.

² The measurement and verification report is an annual contractor-submitted report that outlines the calculated savings achieved to date.

Finding

NAVFAC officials did not effectively manage 38 ongoing performance-phase ESPCs, valued at \$1.55 billion. Specifically, NAVFAC officials did not appoint contracting officer's representatives for 31 of the ongoing performance-phase ESPCs and did not develop a quality assurance surveillance plan for any of the 38 ongoing performance-phase ESPCs. As of August 1, 2016, NAVFAC officials had reduced the number of ongoing performance-phase ESPCs without an appointed contracting officer's representative from 31 to 6 and had developed a quality assurance surveillance plan for all 38 ongoing performance-phase ESPCs.

For the five ongoing performance-phase ESPC projects reviewed in more detail, NAVFAC officials did not:

- validate the contractor-claimed energy savings of five ESPC post-implementation reports that supported a total of \$9.3 million in contract payments,
- validate contractor-claimed energy savings in 7 of 25 measurement and verification reports (for four of the five ESPCs reviewed) that supported a total of \$39.4 million in contract payments, and
- perform higher-level reviews for 4 of 18 base-level³ validation reports (for two of the five ESPCs reviewed) that supported a total of \$19 million in contract payments.

This occurred because NAVFAC officials and base-level public works officers did not emphasize the need to have contracting officer's representatives and quality assurance surveillance plans in place to monitor ongoing performance-phase ESPCs and did not prioritize validating the contractor's post-installation and measurement and verification reports.

³ "Base-level" is used in this report to describe actions occurring at a Navy installation public works or contracting office.



Results in Brief

Naval Facilities Engineering Command Management of Energy Savings Performance Contracts Needs Improvement

Finding (cont'd)

As a result, NAVFAC officials may not know whether 38 ongoing performance-phase ESPCs, valued at \$1.55 billion, fully comply with Federal Acquisition Regulation, DoD, and NAVFAC guidance. In addition, the five ongoing performance-phase ESPC projects reviewed in more detail include approximately \$67.6 million in contract payments that remain questionable.

Recommendations

We recommend that the Commander, NAVFAC, direct program and contracting officials to validate and perform required reviews of \$67.6 million in contract-guaranteed energy-savings payments over 16 performance periods for five ESPCs reviewed. The Commander should direct NAVFAC officials to take appropriate contractual action if necessary, such as recovering unrealized guaranteed energy savings or canceling the remaining portion of the contracts.

In addition, the Commander should direct NAVFAC officials to develop a plan to fill contracting officer's representative vacancies; ensure that contracting officers implement quality assurance surveillance plans to monitor ongoing ESPCs; and ensure that NAVFAC

Expeditionary Warfare Center and base-level personnel complete reviews of post-installation and measurement and verification validations, as well as higher-level reviews of those validations. The plan should also address the importance of resolving disputes between NAVFAC program officials and reviewers, and managing NAVFAC Expeditionary Warfare Center and base-level public works personnel ESPC contract administration, measurement and verification validation, and quality assurance surveillance actions.

Management Comments and Our Response

The Commander, NAVFAC, addressed all specifics of the recommendations and no further comments are required. As a result of the Commander's comments, we deleted one draft report recommendation and renumbered two other draft report recommendations in the final report. Please see the Recommendations Table on the next page.

Recommendations Table

| Management | Recommendations Requiring Comment | No Additional Comments Required |
|---|--|--|
| Commander, Naval Facilities Engineering Command | | 1.a.1, 1.a.2, 1.a.3, 1.a.4, 1.a.5, 1.a.6, 1.b.1, 1.b.2, 1.b.3, 1.b.4, 1.b.5, 1.c, 1.d.1, 1.d.2, 1.e.1, 1.e.2, 1.e.3, 1.e.4, 1.e.5, and 1.e.6 |





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

January 26, 2017

**MEMORANDUM FOR UNDER SECRETARY OF DEFENSE FOR ACQUISITION,
TECHNOLOGY, AND LOGISTICS
NAVAL INSPECTOR GENERAL**

**SUBJECT: Naval Facilities Engineering Command Management of Energy Savings Performance
Contracts Needs Improvement (Report No. DODIG-2017-044)**

We are providing this report for your information and use. Naval Facilities Engineering Command officials did not effectively manage 38 ongoing performance-phase energy savings performance contracts valued at \$1.55 billion. Furthermore, the five ongoing performance-phase energy savings performance contracts reviewed in detail include contract payments of \$67.6 million, and these payments remain questionable because Naval Facilities Engineering Command officials have not determined if the related projects have generated sufficient savings to pay for the energy conservation measures. We conducted this audit in accordance with generally accepted government auditing standards.

We considered management comments on a draft of this report when preparing the final report. As a result of the comments, we deleted draft report Recommendation 1.d.1 and renumbered draft report Recommendations 1.d.2 and 1.d.3, respectively, as Recommendations 1.d.1 and 1.d.2 in the final report. DoD Instruction 7650.03 requires that recommendations be resolved promptly. Comments from the Commander, Naval Facilities Engineering Command, conformed to the requirements of DoD Instruction 7650.03. No further comments are needed from the Commander.

We appreciate the courtesies extended to the staff. Please direct questions to me at (703) 604-9077 (DSN 664-9077).


Jacqueline L. Wicecarver
Deputy Inspector General
for Auditing

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Acronyms and Abbreviations

Introduction

Objective

Our objective was to determine whether the Department of the Navy (DON) was effectively managing energy savings performance contracts (ESPCs). This report is the third in a series on Department of Defense (DoD) ESPCs. See Appendix A for scope and methodology and prior audit coverage.

Background

ESPCs provide a way for the private sector to finance Federal Government energy-savings projects. Through ESPCs, an energy services contractor designs, finances, acquires, installs, and maintains energy-saving equipment and systems for a Federal agency. ESPCs allow Federal agencies to procure energy savings and facility improvements with no upfront capital costs or special appropriations from Congress.

An ESPC consists of two phases, the construction phase and the performance phase. During the construction phase, the energy-savings contractor constructs the energy conservation measures (ECMs).⁴ The performance phase begins once the ECMs are installed and accepted by the Government. At the end of the construction phase, the contractor submits a post-installation (PI) report to summarize construction phase results and identify any energy savings achieved during the phase. During the performance phase, the contractor operates and maintains energy improvements, measures the energy savings, and submits measurement and verification (M&V) reports⁵ in accordance with the ESPC contract. The Federal agency that receives the energy-saving improvements is responsible for contract administration for the entire term of the contract.

The Department of Energy (DOE) Federal Energy Management Program provides Federal agencies with ESPC training and project facilitation services, including technical assistance, legal guidance, funding guidance, and contracting support.

Statutory ESPC Requirement

Section 8287, title 42, United States Code (42 U.S.C. § 8287 [2011]), includes several specific mandates for Federal agencies entering into ESPCs. It allows Federal agencies to implement ECMs if the overall utility costs to the agency do

⁴ Energy conservation measures improve energy efficiency, are life-cycle cost-effective, and involve energy conservation, cogeneration facilities, renewable energy sources, improvements in operations and maintenance, or retrofit activities.

⁵ The measurement and verification report outlines the calculation of energy savings, and any other evaluation of costs and savings needed to determine the guarantee of savings.

not increase as a result of the contract, and if any Government-incurred debt is secured by a guarantee of energy savings from the contractor. The statute at 42 U.S.C. 8287 (a)(2)(c) states, “Federal agencies may incur obligations pursuant to such contracts to finance energy conservation measures provided guaranteed savings exceed the debt service requirements.” The statute also requires that aggregate annual agency payments to the contractor over the term of the ESPC⁶ do not exceed the amount that the agency would have paid for utilities without the ESPC in place. The contractor guarantees that ECMs will generate sufficient cost savings to pay for the project. The statute also mandates that the ESPC include an annual energy audit of contractor energy savings using M&V techniques based on sound engineering and financial practices. The statute at 42 U.S.C. 8287 (a)(2)(G) further states, “In the case of energy savings performance contracts, the evaluations and savings measurement and verification required under paragraphs (2) and (4) of section 8253(f) of this title shall be used by a Federal agency to meet the requirements for the need for energy audits, calculation of energy savings, and any other evaluation of costs and savings needed to implement the guarantee of savings under this section.”

Naval Facilities Engineering Command ESPC Management Structure

Naval Facilities Engineering Command (NAVFAC) manages the Navy ESPC program, and the Navy ESPC Program Manager is located at NAVFAC Headquarters, Navy Yard, Washington, D.C. However, most ESPC program and contract management functions are performed at the Naval Facilities Engineering and Expeditionary Warfare Center (NAVFAC-EXWC), Port Hueneme, California.⁷

Within NAVFAC, base-level⁸ Public Works Officers (PWO) manage installation facilities. The PWO nominates, and the NAVFAC-EXWC contracting officer⁹ appoints, the contracting officer’s representative¹⁰ (COR) for ESPC project oversight. The COR or a base-level PWO-designated specialist perform a base-level validation, which validates the contractor’s PI and M&V reports to verify that contractor-claimed energy savings are accurate and that Government payments to the contractor do not exceed the verified savings. The PWO and a NAVFAC-EXWC

⁶ According to 42 U.S.C. § 8287 (2011)(a)(2)(D), ESPC terms may not exceed 25 years.

⁷ For the purposes of this report, all personnel at NAVFAC-ESPC Program Manager and NAVFAC-EXWC are referred to as “NAVFAC officials.”

⁸ “Base-level” is used in this report to describe actions occurring at a Navy installation public works or contracting office.

⁹ Federal Acquisition Regulation (FAR) Part 2, “Definitions of Words and Terms,” Subpart 2.101, “Definitions,” defines a contracting officer as a person with the authority to enter into, administer, and/or terminate contracts and make related determinations and findings.

¹⁰ FAR subpart 2.101 defines a COR as an individual, including a contracting officer’s technical representative (COTR), designated and authorized in writing by the contracting officer to perform specific technical or administrative functions.

subject-matter expert (SME) perform higher-level reviews of the base-level validations of contractor reports. The NAVFAC-EXWC contracting officer formally accepts the base-level validation and documents the validation in the contract file.

Navy and NAVFAC ESPC Policy and Guidance

DON and NAVFAC ESPC policies have been revised and significantly expanded in the last 3 years. DON-level ESPC guidance is contained in Commander, Navy Installations Command Instruction 4101.1, “Standardization for Management of Utility Energy Service Contracts and Energy Savings Performance Contracts,” February 8, 2013, and Instruction 4101.2, “Evaluation of Energy Project Investment Performance,” March 16, 2015. These Instructions provide guidelines, responsibilities, and procedures for requirements, contracting, funding, return on investment, and management of ESPCs. Furthermore, NAVFAC Instruction 4200.1, “Contracting Officer’s Representatives,” September 18, 2013, contains guidance on COR responsibilities, procedures, documentation, and qualification requirements.

NAVFAC ESPC-related guidance includes the NAVFAC Energy Project Management Guide, dated November 2012, which states that the COR performs a validation of the contractor’s PI and annual M&V reports of contractor-claimed energy savings. The guidance also states that the NAVFAC’s SME, contracting specialist, and contracting officer will perform additional reviews to ensure the accuracy, compliance, and acceptance of the contractor’s and COR’s M&V reports. The guidance provides templates for reporting NAVFAC officials’ base-level validation of contractor-submitted PI and M&V reports as well as templates for NAVFAC higher-level review of the base-level validations. NAVFAC Business Management System Processes provide additional ESPC-related technical guidance to identify, review, and follow up on ESPC performance verifications.¹¹

DOE and NAVFAC ESPC Contracting Support and ESPCs Reviewed

The DOE and the NAVFAC-EXWC contracting office¹² provide contracting support for Navy ESPCs. The NAVFAC-EXWC contracting office provides ESPC-related contract solicitation, negotiation, award, and administration. The DOE established indefinite-delivery indefinite-quantity contracts,¹³ called Super ESPCs, for use by Federal agencies. Federal agencies can use the DOE-Federal Energy Management Program for assistance in implementing Super ESPC projects.

¹¹ NAVFAC Business Management System includes Process B-5.1.2, “Energy-Funded Projects,” February 10, 2014, and Process B-5.1.5, “Measurement and Verification on Energy Projects,” April 27, 2015.

¹² The NAVFAC Federal Acquisition Regulation Supplement designates the NAVFAC-EXWC contracting office as the only DON entity authorized to award ESPC task orders authorized under 42 U.S.C § 8287 (2011).

¹³ Indefinite-delivery indefinite-quantity contracts are task order contracts that provide for an indefinite quantity, within stated limits, of supplies or services during a fixed period.

According to NAVFAC-EXWC officials, as of April 2016, NAVFAC had an inventory of 42 ongoing ESPC projects, valued at \$1.95 billion, awarded between 1999 and 2016. Thirty-eight of the ESPCs, valued at \$1.55 billion, are in the performance phase, while the remaining 4 ESPCs, valued at \$395.7 million, are in the construction phase. We reviewed the 38 performance-phase ESPCs to determine whether NAVFAC officials appointed CORs and developed quality assurance surveillance plans (QASPs). In addition, we nonstatistically selected five ongoing performance-phase ESPC projects for a more detailed review to determine whether NAVFAC officials validated the contractor-claimed energy savings outlined in the PI and M&V reports. See Table 1 for a summary of the five ongoing performance-phase ESPC projects reviewed.

Table 1. Five Ongoing Performance-Phase ESPC Projects Reviewed in Detail

| Installation | Contract Award Amount (in millions) | Description of Energy Conservation Measures |
|--|-------------------------------------|--|
| Commander Fleet Activities (CFA), Yokosuka, Japan | \$342.9 | Construction and operation of a cogeneration system to provide the base heat and electric power |
| Naval Air Station (NAS) Oceana, Virginia (Main Base) | 124.3 | Building heating, ventilating, and air conditioning upgrades and controls; ground source heat pumps; high-efficiency lighting retrofits; central utilities decentralization; and installation of water conservation measures |
| NAS Oceana, Virginia (Dam Neck Annex) | 68.3 | Energy management control system upgrade; building heat, ventilation, and air conditioning upgrades; high-efficiency lighting retrofits, chilled water, hot water, and steam distribution systems; and installation of water and sewer conservation measures |
| Naval Station (NS) Great Lakes, Illinois | 45.5 | Energy improvements for lighting efficiency, a chilled water system, a control system, boilers, and water and waste water improvements |
| Marine Corps Logistics Base (MCLB) Albany, Georgia | 63.9 | Landfill gas utilization system, lighting upgrades for 82 buildings, and an energy management control system upgrade |
| Total | \$644.8 | |

See Appendix A for the methodology used to select the five ESPCs reviewed. For the five ongoing performance-phase ESPC projects, we reviewed whether NAVFAC officials validated the contractor-claimed energy savings outlined in the PI and M&V reports.

Review of Internal Controls

DoD Instruction 5010.40¹⁴ 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 concerning NAVFAC officials' ability to effectively:

- review and validate contractor-claimed energy savings presented in PI and M&V reports, and
- manage the ESPC oversight process through timely appointment of CORs and development of QASPs.

We will provide a copy of the final report to the senior official responsible for internal controls in the Navy.

¹⁴ DOD Instruction 5010.40, "Managers' Internal Control Program Procedures," May 30, 2013.

Finding

NAVFAC Needs to Improve Administration of Navy ESPCs

NAVFAC officials did not effectively manage all 38 ongoing performance-phase ESPCs, valued at \$1.55 billion. Specifically, NAVFAC officials did not appoint CORs for 31 of 38 ongoing performance-phase ESPCs and did not initially develop a QASP for any of the 38 ongoing performance-phase ESPCs.

For the five ongoing performance-phase ESPC projects reviewed in detail, NAVFAC officials did not:

- validate the contractor-claimed energy savings in any of the five ESPC PI reports that supported a total of \$9.3 million in contract payments,
- validate the contractor-claimed energy savings in 7 of 25 M&V reports (for four of the five ESPCs reviewed) that supported a total of \$39.4 million in contract payments, or
- perform higher-level reviews for 4 of the 18 base-level validation reports (for two of the five ESPCs reviewed) that supported a total of \$19 million in contract payments.

This occurred because NAVFAC officials and base-level PWOs did not emphasize the need to have CORs and QASPs in place to monitor ongoing performance-phase ESPCs and did not prioritize validating the contractor's PI and M&V reports.

As a result, NAVFAC officials may not know whether the 38 ongoing performance-phase ESPCs, valued at \$1.55 billion, fully comply with Federal Acquisition Regulation (FAR), DoD, and NAVFAC guidance. In addition, the five ongoing performance-phase ESPC projects reviewed include approximately \$67.6 million in contract payments that remain questionable.

NAVFAC ESPCs Need Appointed CORs and QASPs

NAVFAC officials did not effectively manage all 38 ongoing performance-phase ESPCs, valued at \$1.55 billion. As of September 2015, NAVFAC contracting officials had not appointed CORs for 31 of 38 NAVFAC ongoing performance-phase ESPCs and had not developed QASPs for any of the 38 ongoing performance-phase ESPCs. As of August 1, 2016, NAVFAC officials had reduced the number of ongoing performance-phase ESPCs without an appointed COR to six. In addition, as of August 1, 2016, NAVFAC officials had developed QASPs for all 38 ongoing performance-phase ESPCs.

NAVFAC Did Not Initially Appoint CORs for Most ESPCs

As of September 2015, NAVFAC contracting officials did not initially appoint CORs for 31 of 38 ongoing performance-phase ESPCs, valued at \$1.43 billion. The FAR¹⁵ requires contracting officers to designate and authorize, in writing and in accordance with agency procedures, a COR on firm-fixed-price contracts and orders as appropriate, unless the contracting officer retains and executes the COR duties. DoD guidance¹⁶ states that typically the requiring activity¹⁷ nominates the COR and the contracting officer appoints the COR. Appendix B lists the 38 ongoing performance-phase ESPCs and whether a COR was appointed at the stated points in time.

As of September 2015, NAVFAC contracting officials did not initially appoint CORs for 31 of 38 ongoing performance-phase ESPCs, valued at \$1.43 billion.

As of April 15, 2016, NAVFAC officials had reduced the number of ongoing performance-phase ESPCs without appointed CORs from 31, valued at \$1.43 billion, to 18, valued at \$1.04 billion. As of August 1, 2016, NAVFAC officials further reduced the number of ongoing performance-phase ESPCs without appointed CORs to 6, valued at \$572.1 million. NAVFAC officials stated that they were working to identify and appoint CORs for the remaining six ESPCs.

The ESPC at the Commander Fleet Activities (CFA), Yokosuka, Japan, valued at \$342.9 million, is an example of an ESPC that was without an appointed COR on at least two occasions since the project entered the performance phase. The CFA Yokosuka, Japan, ESPC entered the performance phase on September 1, 2008, with the contracting officer appointing the first COR on May 8, 2009. On August 11, 2010, January 30, 2012, and August 20, 2013, the contracting officer appointed other CORs; however, as of September 15, 2015, the CFA Yokosuka ESPC did not have an appointed COR. As of August 1, 2016, the CFA Yokosuka, Japan ESPC still did not have a contracting officer-appointed COR. NAVFAC officials were unable to provide an explanation for why and for what periods the COR position was vacant on the ESPC at the CFA Yokosuka, Japan. As of August 1, 2016, in addition to the ESPC at the CFA Yokosuka, Japan, the following ongoing performance-phase ESPCs still did not have appointed CORs: NAS Oceana (Dam Neck Annex), Joint Base Anacostia-Bolling, NS Newport, and two separate ESPCs for NAS Oceana (Main Base). NAVFAC base-level PWOs should identify and nominate CORs and the NAVFAC EXWC contracting officers to appoint qualified CORs for the six remaining vacancies discussed above.

¹⁵ FAR Part 1, "Federal Acquisition Regulations System," Subpart 1.602-2, "Responsibilities."

¹⁶ "DoD COR Handbook," revised March 22, 2012.

¹⁷ The requiring activity is the entity that has a requirement for supplies or services and requests the initiation of the contract.

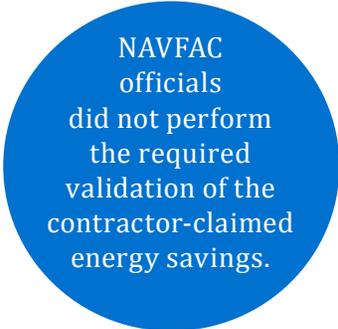
Most NAVFAC ESPCs Initially Lacked QASPs

As of September 2015, NAVFAC contracting officials did not initially develop QASPs for the 38 ongoing performance-phase NAVFAC ESPCs. The FAR¹⁸ requires that the Government monitor contractor performance during manufacture or performance of services as needed to determine that the supplies or services meet contract requirements. The FAR also requires that QASPs be prepared in conjunction with the preparation of the contract statement of work and that QASPs specify all work requiring oversight and the method of oversight. DoD guidance¹⁹ further requires that contracting officers ensure that the requiring activity prepares a QASP to help the COR monitor contractor performance. As of August 1, 2016, NAVFAC contracting officials had developed QASPs for all 38 ongoing performance-phase ESPCs that did not previously have QASPs; therefore, we are not making a recommendation related to developing QASPs.

NAVFAC Needs to Improve Controls Over Annual Validation of Contractor-Claimed Energy Savings

NAVFAC officials did not perform the required validation of the contractor-claimed energy savings. Specifically, for the five ongoing performance-phase ESPCs reviewed in detail, NAVFAC officials did not:

- validate the contractor-claimed energy savings in five ESPC PI reports that supported a total of \$9.3 million in contract payments,
- validate the contractor-claimed energy savings in 7 of 25 M&V reports (for four of the five ESPCs reviewed) that supported a total of \$39.4 million in contract payments, and
- perform higher-level reviews for 4 of the 18 base-level validation reports (for two of the five ESPCs reviewed) that supported a total of \$19 million in contract payments.



NAVFAC officials did not perform the required validation of the contractor-claimed energy savings.

¹⁸ FAR Part 46, "Quality Assurance," Subpart 46.4, "Government Contract Quality Assurance," and Subpart 46.3, "Contract Clauses," 46.312, "Construction contracts."

¹⁹ DoD COR Handbook, March 22, 2012.

NAVFAC Did Not Validate Contractor-Claimed Energy Savings in PI Reports and in Some Annual M&V Reports

For the five ongoing performance-phase ESPCs reviewed in detail, NAVFAC officials did not validate the five contractor-provided PI reports with contractor-claimed energy savings of \$9.3 million, and did not validate 7 of 25 annual M&V reports with contractor-claimed energy savings supporting payments of \$39.4 million.²⁰ NAVFAC guidance²¹ requires all Navy ESPCs associated with a DOE Super ESPC to follow DOE-Federal Energy Management Program guidance and validate PI and annual M&V reports. DOE-Federal Energy Management Program ESPC Guidance²² requires agencies to validate contractor-provided PI and M&V reports at regular intervals to ensure that installed energy-savings equipment is operational and is delivering the savings that the contractor proposed. The DOE-Federal Energy Management Program guidance states that annual contractor-provided PI and M&V reports are required for all Federal ESPC projects. Validation of the PI and annual M&V reports provides Federal agencies with assurance that the contractor-claimed savings will generate sufficient cost savings to pay for the project.

The S8-1 “Standard M&V Review Report” is the NAVFAC base-level public works department personnel’s validation of the PI and annual M&V reports. The S8-1 validation is performed by the performance-phase COR. During the S8-1 review validation, NAVFAC base-level public works department personnel verify that the contractor-claimed energy savings are accurate and that Government payments to the contractor do not exceed the verified savings. Table 2 shows the number of contractor-provided PI and M&V reports for the five NAVFAC ongoing performance-phase ESPCs reviewed and the number of PI and M&V reports not validated.

²⁰ Eighteen of the 25 M&V reports, supporting payments of \$121.7 million, were validated by base-level public works department personnel.

²¹ NAVFAC Project Management Guide, November 2012.

²² DOE-Federal Energy Management Program -M&V Guidelines: Measurement and Verification for Performance-Based Contracts Version 4.0, November 2015.

Table 2. NAVFAC S8-1 Validation of PI and Annual M&V Reports for Reviewed EPSCs (as of August 1, 2016)

| ESPC Task Order | Location | Number of PI Reports Required for Validation | PI Reports Not Validated | Total Payment Value of PI Reports Not Validated (in millions) | Number of M&V Reports Required for Validation | Number of M&V Reports Not Validated | Total Payment Value of M&V Reports Not Validated (in millions) |
|------------------|-----------------------------|--|--------------------------|---|---|-------------------------------------|--|
| N47408-00-D-8117 | CFA Yokosuka | 1 | 1 | \$2.5 | 7 | 2 | \$27.2 |
| N62473-07-F-4005 | NAS Oceana (Dam Neck Annex) | 1 | 1 | 2.7 | 6 | 2 | 6.2 |
| N62583-09-F-0104 | NAS, Oceana | 1 | 1 | 3.6 | 4 | 0 | 0 |
| N62583-10-F-0324 | NS Great Lakes | 1 | 1 | 0.1 | 4 | 1 | 2.0 |
| N62583-10-F-0311 | MCLB Albany | 1 | 1 | 0.4 | 4 | 2 | 4.0 |
| Totals | | 5 | 5 | \$9.3 | 25 | 7 | \$39.4* |

* Table entries are in millions and rounded to the nearest tenth. Totals may not equal the actual sum because of rounding.

For example, NAVFAC-EXWC officials did not validate the contractor-provided PI report on the NAS Oceana (Dam Neck Annex) ESPC. On September 4, 2008, NAVFAC officials received the contractor-provided PI report and on October 14, 2008, paid the contractor \$2.4 million in claimed energy savings achieved during the second half of the ESPC construction phase.²³ However, the base-level public works department personnel did not complete the S8-1 validation to confirm the contractor-claimed savings. According to a NAVFAC-EXWC official, before FY 2012, NAVFAC officials did not complete validations of PI reports.

The NS Great Lakes ESPC was another example of an unvalidated report. On January 10, 2014, the contractor for the NS Great Lakes ESPC submitted the annual M&V report for the period of performance from September 1, 2012, to August 31, 2013, claiming \$2.0 million in achieved energy savings. However, the NS Great Lakes COR did not complete the S8-1 review to determine whether the contractor met the claimed energy savings stated in the M&V report. According to NAVFAC officials, the annual M&V report for this period of performance was not validated because NAVFAC personnel had other higher priorities.²⁴ DOE M&V Guidelines require, at a minimum, that NAVFAC personnel validate the

²³ On September 26, 2007, the Navy paid the contractor \$0.4 million for claimed energy savings achieved during the first half of the ESPC construction phase.

²⁴ The Assistant Commander for Public Works, NAVFAC told us that the establishment of new ESPC projects and other public works functions took priority over completing the validation of PI and M&V reports and completing the higher-level reviews. Comments from NAVFAC Headquarters on a draft of this report noted that the Assistant Commander had high confidence in the PI and M&V reports and that the establishment of new ESPC projects resulted in the Command taking measured risk by delaying the PI and M&V report validation and the higher-level reviews.

contractor PI report and the annual M&V reports to assure that contractor-claimed energy savings would generate sufficient cost savings to pay for the project.²⁵ NAVFAC-EXWC officials should document the validity of prior year ESPC contractor-claimed energy savings achieved for:

- CFA Yokosuka post-installation period completed on November 14, 2008, and for performance periods of September 1, 2008, through August 31, 2009, and September 1, 2009, through August 31, 2010;
- NAS Oceana (Dam Neck Annex) post-installation period completed on September 30, 2008, and performance periods of October 1, 2008, through September 30, 2009, and October 1, 2009, through September 30, 2010;
- NAS Oceana (Main Base) post-installation period completed on December 17, 2010;
- NS Great Lakes post-installation period completed on August 31, 2011, and for performance period of September 1, 2012, through August 31, 2013; and
- MCLB Albany post-installation period completed on February 29, 2012, and performance periods of May 1, 2012, through April 30, 2013, and May 1, 2013, through April 30, 2014.

The NAVFAC-EXWC contracting officer should take appropriate contractual action if necessary, including recovering unrealized guaranteed energy savings or canceling the remaining portion of the applicable contract.

NAVFAC-EXWC Officials Did Not Perform Higher-Level Reviews of Contractor-Claimed Energy Savings

For two of the five ongoing performance-phase ESPCs reviewed, NAVFAC-EXWC officials did not perform higher-level reviews of 4 of 18 base-level (S8-1 review) validations of annual M&V reports that supported \$19 million in contractor payments.²⁶ In November 2012, NAVFAC officials implemented PI and M&V review guidance²⁷ requiring a two-tiered higher-level review of the S8-1 Standard M&V review report (if performed). The base-level PWO and NAVFAC-EXWC contracting officer perform the two-tiered higher-level review process, which consists of completing an S8-2 “M&V Summary Report,” and an S8-3 “Notification of M&V Acceptance” review. The base-level PWO performs the S8-2 review and the NAVFAC contracting officer performs the S8-3 review. During the S8-2 review, the base-level PWO summarizes the base-level validation (S8-1 review) noting that

²⁵ The “DOE-Federal Energy Management Program M&V Guidelines: Measurement and Verification for Performance-Based Contracts,” Version 4.0, November 2015 and NAVFAC Energy Project Management Guide, November 2012, provide guidance on the minimum requirements for validating contractor PI and annual M&V reports.

²⁶ Both ongoing performance-phase ESPCs without completed higher-level reviews were after FY 2012.

²⁷ NAVFAC Energy Project Management Guide, November 2012.

the S8-1 analysis was completed by the appointed COR. Once the base-level PWO completes the summary, the S8-2 review is endorsed by a NAVFAC-EXWC SME and the NAVFAC-EXWC contracting officer. Once the S8-2 review is completed, NAVFAC guidance²⁸ requires that the contracting officer accept the results of the S8-1 and S8-2 reviews through signature of an S8-3 “Notification of M&V Acceptance.” Once signed, the NAVFAC-EXWC contracting officer transmits the completed S8-3 review to the contractor.

Of the 18 S8-1 reviews completed for the five ongoing performance-phase ESPCs, NAVFAC personnel completed:

- an S8-1 review but did not complete either the S8-2 or S8-3 review for one M&V report; and
- S8-1 and S8-2 reviews but did not complete the S8-3 review for three M&V reports.

See Table 3 for a summary of NAVFAC personnel’s higher-level (S8-2 and S8-3 reviews) reviews for the annual M&V reports that were completed or not completed for the 18 base-level validations (S8-1 reviews) for the five ESPCs reviewed. See Appendix C for a list of ESPCs by year, showing the 18 performed S8-1 base-level validations and associated performed and nonperformed NAVFAC higher-level S8-2 and S8-3 reviews of annual contractor M&V reports.

Table 3. NAVFAC Higher-Level Reviews of Base-Level M&V Reports (as of August 1, 2016)

| Location | Total Base-Level (S8-1) M&V Reports Completed | Performance Periods Where Higher-Level Reviews Were Completed | Performance Periods Where Higher-Level Reviews Were Not Completed | Dollar Value of Higher-Level Reviews Not Completed (in millions) |
|-----------------------------|---|---|---|--|
| CFA Yokosuka, Japan | 5 | 5 | 0 | 0 |
| NAS Oceana (Dam Neck Annex) | 4 | 3 | 1 | \$3.4 |
| NAS Oceana (Main Base) | 4 | 1 | 3 | 15.6 |
| NS Great Lakes | 3 | 3 | 0 | 0 |
| MCLB Albany | 2 | 2 | 0 | 0 |
| Totals | 18 | 14 | 4 | \$19 |

²⁸ NAVFAC Energy Project Management Guide, November 2012.

For example, on the ESPC at NAS Oceana (Main Base), the contractor submitted the annual M&V report for the performance period of February 1, 2012, through January 31, 2013, claiming energy savings of \$5 million. The base-level energy manager completed the S8-1 review, validating the contractor-claimed energy savings; however, the NAS Oceana PWO and the NAVFAC-EXWC SME did not complete the S8-2 review confirming the base-level S8-1 validation, nor did the NAVFAC-EXWC contracting officer complete the S8-3 review. In addition, in April 2014, the contractor for the NAS Oceana (Main Base) ESPC submitted the annual M&V report for the performance period of February 1, 2013, through January 31, 2014, claiming energy savings of \$5.2 million. The base-level energy manager completed the S8-1 review, validating the contractor-claimed energy savings and the NAS Oceana and base-level PWO completed the S8-2 review summarizing and confirming the S8-1 review. However, the NAVFAC-EXWC SME did not complete his portion of the S8-2 review and the NAVFAC-EXWC contracting officer did not complete the S8-3 review confirming the base-level S8-1 and S8-2 reviews. NAVFAC officials should perform the required higher-level reviews (S8-2 and S8-3) of the ESPC contractor-claimed energy savings validated through the base-level S8-1 reviews for:

- NAS Oceana (Dam Neck Annex) for performance period of October 1, 2012, through September 30, 2013; and
- NAS Oceana (Main Base) for performance period of February 1, 2012, through January 31, 2013, February 1, 2013, through January 31, 2014, and February 1, 2014, through January 31, 2015.

NAVFAC Management Needs to Emphasize the Administration of ESPCs

NAVFAC officials did not initially appoint CORs or initially develop QASPs because NAVFAC officials and base-level PWOs did not emphasize the need to have CORs and QASPs in place to monitor performance-phase ESPCs. In addition, NAVFAC officials did not validate the claimed energy savings and contractor payments or perform higher-level reviews because NAVFAC officials did not prioritize validating the contractor-provided PI and M&V reports.

Increased NAVFAC Emphasis on Appointing CORs Needed

The Assistant Commander and Director for Public Works, NAVFAC, stated that before September 2015, he did not emphasize the need to appoint CORs for the ongoing performance-phase ESPCs.²⁹ On September 28, 2015, the Assistant Commander and Director for Public Works, NAVFAC, directed the base-level PWOs to nominate replacement CORs for the ongoing performance-phase ESPCs by October 9, 2015. On April 29, 2016, the Assistant Commander and Director for Public Works, NAVFAC, re-emphasized to NAVFAC personnel the need to have CORs appointed to all ongoing performance-phase ESPCs still without an appointed COR. Despite this direction to appoint CORs to all ongoing ESPCs, as of April 29, 2016, the base-level PWOs still allowed other priorities, such as new ESPC projects and other public works functions,³⁰ to overshadow appointing CORs for 18 ongoing performance-phase ESPCs. Though the Assistant Commander and Director for Public Works emphasized the importance of appointing CORs for the ESPCs in the performance phase, additional emphasis is needed at the NAVFAC-EXWC and PWO levels for all ongoing ESPCs. NAVFAC officials should develop and implement a management plan that addresses the importance of properly conducting contract administration of all ongoing ESPCs, regardless of the contract phase.

Base-Level PWOs Need to Improve Notification to NAVFAC-EXWC of COR Vacancies

Base-level PWOs did not notify NAVFAC-EXWC contracting officials of ESPC COR vacancies when they occurred. NAVFAC policy³¹ requires CORs to notify the NAVFAC-EXWC contracting officers in writing 5 days in advance of pending COR reassignment, new employment, retirement, or contract completion. However, according to the NAVFAC-EXWC contracting officer, at times neither the appointed COR nor the base-level PWO notified the NAVFAC-EXWC contracting officer of COR vacancies. When this occurred, the NAVFAC-EXWC contracting officer was unaware of the need for the PWO to nominate and the contracting officer to appoint a new COR. The NAVFAC management plan should describe the importance of base-level PWO personnel notifying the NAVFAC-EXWC contracting officer of vacancies in COR positions.

²⁹ Comments from NAVFAC Headquarters on a draft of this report noted that since September 2015, the Assistant Commander for Public Works initiated and strengthened the collaboration within the Assistant Commander for Acquisition to ensure COR appointments were designated in writing.

³⁰ Examples of other public works functions include reviewing energy bills, verifying utility invoices, and developing cost estimates for energy projects.

³¹ NAVFAC Instruction, 4200.1, "Contracting Officer's Representatives," September 18, 2013.

Base-Level PWOs Need to Maintain Continuity of COR Duties When ESPC COR Vacancies Occur

Base-level PWOs did not maintain continuity of COR duties when ESPC COR vacancies occurred. According to the Assistant Commander and Director for Public Works, NAVFAC experienced a challenge with base-level PWOs maintaining continuity of COR duties when vacancies occurred. As allowed by NAVFAC policy³² when COR vacancies are not filled in a timely manner, NAVFAC-EXWC officials stated that they request NAVFAC base-level PWOs to designate an ESPC point of contact to handle the COR functions. Typical COR duties for an ESPC include responsibility for receipt and review of contractor PI reports and subsequent annual contractor M&V reports, including preparation of the previously discussed S8-1 analysis, that support contractor-claimed energy savings. In addition, the COR typically performs assessment of contractor repair and maintenance activities, reviews and approves contractor invoices, and performs assessment reporting of the contractor's performance. The NAVFAC management plan should describe the importance of base-level PWO personnel maintaining continuity of COR duties until the COR vacancies are filled.

NAVFAC-EXWC Emphasis on Developing QASPs Improved

NAVFAC EXWC contracting officials did not believe they needed to develop QASPs to monitor the ongoing performance-phase ESPCs. Before September 2015, NAVFAC EXWC contracting officials did not believe they needed to develop QASPs to outline how NAVFAC personnel would monitor the ongoing performance-phase ESPCs. However, the new NAVFAC-EXWC contracting officers that were appointed in July 2015 and April 2016 agreed that QASPs were necessary, and they developed QASPs for the 38 ongoing performance-phase ESPCs. The NAVFAC management plan should describe the importance of NAVFAC-EXWC contracting officers implementing QASPs to monitor ongoing performance-phase ESPCs.

NAVFAC Needs to Emphasize Importance of Validating Contractor-Claimed Energy Savings

According to the Assistant Commander and Director for Public Works, NAVFAC oversight of new ESPC projects and many other public works functions took priority over completing the validation of the PI and M&V reports and higher-level reviews. He stated that many times validation of PI and M&V reports take a back seat because of other priorities. The NAVFAC management plan should describe the importance of NAVFAC-EXWC and PWO personnel completing PI and M&V validations, and completing higher-level reviews of those validations.

³² NAVFAC Instruction, 4200.1, "Contracting Officer's Representatives," September 18, 2013.

NAVFAC Needs to Resolve Disputes Related to Validation Methods

NAVFAC-EXWC officials did not take actions to resolve disputes among NAVFAC-EXWC officials, base-level PWO personnel, and NAVFAC-EXWC SMEs related to the PI and M&V validation methods. As of August 1, 2016, NAVFAC-EXWC officials had not taken action to resolve their disagreement with the base-level (S8-1 review) method used to validate four S8-1 reviews, with a total payment value of \$17.5 million. Without resolving these disputes, NAVFAC officials may not know whether payments to the contractor for the four ESPCs were less than the agency would have paid without an ESPC. The NAVFAC management plan should describe the importance of resolving disputes among NAVFAC-EXWC officials, base-level PWO personnel, and NAVFAC SMEs related to the PI and M&V validation methods.

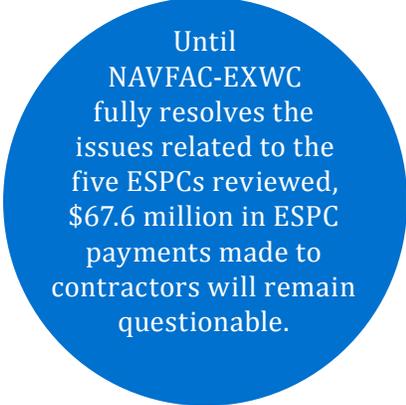
NAVFAC Officials May Not Know Whether Active ESPCs Have Achieved Contractor-Claimed Energy Savings

Because NAVFAC officials did not effectively manage the 38 ongoing performance-phase ESPCs, valued at \$1.55 billion, they may not know whether those ESPCs fully comply with FAR Subpart 1.602-2, the DoD COR Handbook, and the NAVFAC Energy Project Management Guide. As of April 2016, NAVFAC officials did not appoint CORs, did not develop QASPs, did not validate the contractor-claimed energy savings and contractor payments, or perform higher-level reviews. However, as of August 1, 2016, NAVFAC contracting officials had developed QASPs for all 38 ongoing performance-phase ESPCs and had reduced the number of ESPCs without an appointed COR to 6, valued at \$572.1 million.³³

In addition, 42 U.S.C. § 8287 (2011) requires that the annual agency payments to the contractor be less than what the agency would have paid without the implementation of the ECMs. Specifically, NAVFAC officials did not validate the contractor-claimed savings in all five ESPC PI reports reviewed, did not validate the contractor-claimed savings in 7 of 25 M&V reports (for four of the five ESPCs reviewed), and did not perform higher-level reviews of 4 out of 18 base-level validation reports for 2 of 5 ESPCs reviewed.

³³ As of October 1, 2016, base-level public works officers had nominated and NAVFAC-EXWC contracting officers had appointed CORs for the six ESPCs.

Until NAVFAC-EXWC fully resolves the issues related to the five ESPCs reviewed, \$67.6 million in ESPC payments made to contractors will remain questionable. The contractor payments are considered questionable because NAVFAC officials have not determined if the payments met statutory requirements to assure that energy savings were achieved and the savings generated are sufficient to pay for the ECM. NAVFAC officials need to improve contract management controls over ongoing performance-phase ESPC projects to verify, as required by statute, that energy-savings baselines were achieved and that NAVFAC's payments to the contractors do not exceed the actual savings.



Until NAVFAC-EXWC fully resolves the issues related to the five ESPCs reviewed, \$67.6 million in ESPC payments made to contractors will remain questionable.

Management Comments on the Finding and Our Response

Commander, Naval Facilities Engineering Command, Comments on NAVFAC Management of ESPCs

The Commander, NAVFAC, did not agree with the report statement that NAVFAC officials did not effectively manage all 38 ongoing performance-phase ESPCs, valued at \$1.55 billion. The Commander stated that we did not perform a full evaluation of management effectiveness for the 38 ESPC projects. Specifically, he stated that the scope of our review was to perform an administrative review of COR designations and QASPs for the 38 ESPCs and a more detailed review of only 5 ESPCs.

Our Response

We concluded that NAVFAC officials did not effectively manage all 38 ongoing performance-phase ESPCs because, as of September 15, 2015, NAVFAC officials had not:

- appointed CORs for 31 of 38 ongoing performance-phase ESPCs, or
- developed a QASP for any of the 38 ongoing performance-phase ESPCs.

In addition, according to NAVFAC officials, before FY 2012, NAVFAC personnel did not validate the contractor-claimed energy savings outlined in the PI and M&V reports for performance-phase ESPCs in their portfolio. The detailed review of five ESPC projects (four Navy and one Marine Corps) confirmed that NAVFAC officials did not validate the contractor-claimed energy savings for PI and M&V reports received before FY 2012. Furthermore, the review showed that even after 2012,

NAVFAC officials did not validate M&V reports or perform higher-level reviews. The results of the entire review led us to conclude that NAVFAC officials did not effectively manage the 38 ongoing performance-phase ESPCs.

Commander, Naval Facilities Engineering Command, Comments on Amount of Questionable Payments

The Commander, NAVFAC, did not agree with a draft report statement that the ESPC projects reviewed included approximately \$84 million in questionable contract payments. The Commander stated that the statement was misleading because NAVFAC officials had completed first-level S8-1 reviews validating energy savings for the five ongoing performance-phase ESPCs reviewed in more detail. The Commander noted that NAVFAC officials remained confident in the results of these first-level reviews (S8-1 reviews) and that higher-level reviews (S8-2 and S8-3 reviews) were underway and would be completed in the near future.

Our Response

We revised the \$84 million in questioned contract payments to \$67.6 million because NAVFAC officials provided additional documents showing the higher-level review (S8-3 review) for CFA Yokosuka, Japan (see Management Comments on Claimed Energy Savings for CFA Yokosuka, Japan and NAS Oceana, Virginia, and Our Response). The \$67.6 million in questioned contract payments represented the contract payment value of the:

- 5 PI reviews (valued at \$9.3 million) and 7 M&V reviews (valued at \$39.4 million) without a completed S8-1 review; and
- 4 M&V reviews (valued at \$19 million) when the S8-1 reviews for which at least one higher-level S8-2 or S8-3 review was not completed.

NAVFAC policy requires not only that NAVFAC officials complete S8-1 reviews, but also that S8-1 reviews are evaluated and approved by PWOs and SMEs (S8-2 reviews) and that S8-2 reviews are approved by the contracting officer and transmitted to the contractor through an S8-3 review.³⁴ Without completing any of these three reviews, NAVFAC officials are making payments for energy savings that were not validated. As outlined in the report, there were disputes among NAVFAC-EXWC officials, base-level PWO personnel, and NAVFAC-EXWC SMEs during the higher-level reviews. These disputes are evidence that the S8-1 review alone is not sufficient and the higher-level reviews (S8-2 and S8-3 reviews) are critical to the validation process. Finally, the contracting officer is responsible for making a final determination of whether the energy savings are valid by approving the S8-1

³⁴ NAVFAC Energy Project Management Guide, November 2012.

and S8-2 review through the final approval and determination in the S8-3 review. Therefore, we consider the \$67.6 million in contract payments to be questionable if neither the S8-1 review nor one of the higher-level reviews were completed. As outlined in Recommendations 1.b.1 through 1.b.5, 1.c.1, and 1.d.1 through 1.d.2, NAVFAC officials will complete the missing S8-1 review and higher-level reviews and if questioned cost are identified take the appropriate contractual actions (if necessary) to recovering unrealized guaranteed energy savings.

Commander, Naval Facilities Engineering Command, Comments on Claimed Energy Savings for CFA Yokosuka, Japan and NAS Oceana, Virginia

The Commander, NAVFAC, stated that NAVFAC officials provided documents showing that an S8-3 higher-level review was completed for CFA Yokosuka, Japan, and that the related energy savings claimed for that project should be reflected as substantiated. In addition, the Commander stated that the M&V for the NAS Oceana (Main Base) was completed and the contractor-claimed savings was substantiated.

Our Response

NAVFAC officials provided documentation that met the intent of the higher-level review (S8-3 review) of the contractor-claimed energy savings in the CFA Yokosuka ESPC M&V report for the period of performance from September 1, 2012, through August 31, 2013. Therefore, we consider the S8-3 review for the CFA Yokosuka ESPC M&V report for that period of performance to be completed, and we have revised the report accordingly. NAVFAC officials did not provide any documentation to support that the M&V savings for NAS Oceana (Main Base) ESPC were achieved. Furthermore, according to the Commander, NAVFAC's comments to Recommendations 1.b.3 and 1d.2, NAVFAC officials should complete the missing M&V validation and higher-level reviews for NAS Oceana (Main Base) by April 28, 2017.

Commander, Naval Facilities Engineering Command, Comments on Reasons for Not Completing Validations and Higher-Level Reviews

In multiple comments, the Commander, NAVFAC, requested that we modify various report statements related to the Assistant Commander and Director of Public Works, NAVFAC, comments on the reasons why NAVFAC personnel did not complete PI and M&V validations and higher-level reviews. Specifically, the Commander requested that we replace the statement that NAVFAC officials noted that annual M&V reports were not validated because NAVFAC personnel had other higher priorities with the statement that NAVFAC officials took a measured risk

in delaying PI and M&V report validations and higher-level reviews. In addition, the Commander requested that we modify a specific statement made by the Assistant Commander for Public Works, NAVFAC, in which he said that before September 2015, he did not emphasize the need to appoint CORs.

Our Response

We did not modify the report statements because we accurately presented the statements made directly to us by the Assistant Commander and Director of Public Works, NAVFAC, and other NAVFAC officials. The Commander, NAVFAC offered replacement statements that attempted to revise the reasons offered to us by Assistant Commander and Director of Public Works, NAVFAC, and other NAVFAC officials during the audit. In recognition of the Commander's comments, we added his additional explanation to the report to provide his view on why NAVFAC officials did not appoint CORs, validate PI and M&V reports, and perform higher-level reviews of the PI and M&V reports. Specifically, we added that the Assistant Commander and Director of Public Works, NAVFAC, had high confidence in contractor PI and M&V reports and took a measured risk in delaying the PI and M&V report validation and the higher-level review process.

Commander, Naval Facilities Engineering Command, Comments on Internal Control Weaknesses

The Commander, NAVFAC, stated that none of the report findings rose to the level of a material weakness as defined in DoD Instruction 5010.40. The Commander noted that the term internal control weakness is not defined in DoD Instruction 5010.40.

Our Response

The report did not classify the identified internal control weaknesses as material weaknesses as defined in DoD Instruction 5010.40.³⁵ However, the report does identify internal control weaknesses related to NAVFAC officials' untimely appointment of CORs, developing QASPs for ESPCs, and validating and conducting higher-level reviews of contractor-claimed energy savings outlined in the PI and M&V reports. Unless the report recommendations are fully implemented, we believe these weaknesses will continue to exist. Finally, according to DoD Instruction 5010.40, management (NAVFAC officials) makes the decision on whether the internal control weaknesses outlined in the report are material.

³⁵ DoD Instruction 5010.40 defines an internal control weakness as an internal control deficiency.

Recommendations, Management Comments, and Our Response

Deleted and Renumbered Recommendations

As a result of management comments, we deleted draft report Recommendation 1.d.1 and renumbered draft report Recommendations 1.d.2 and 1.d.3, respectively, as Recommendations 1.d.1 and 1.d.2 in the final report.

Recommendations

Recommendation 1

We recommend that the **Commander, Naval Facilities Engineering Command:**

- a. **Direct base-level public works officers to identify and nominate qualified contracting officer's representatives, and the Naval Facilities Engineering Command Expeditionary Warfare Center contracting officers to appoint qualified contracting officer's representatives for energy savings performance contracts at:**
 1. **Commander Fleet Activity Yokosuka (N47408-00-D-8117-0002);**
 2. **Joint Base Anacostia-Bolling (F44650-99-D-0001-0001);**
 3. **Naval Air Station Oceana (Main Base N47408-03-F-5114);**
 4. **Naval Air Station Oceana (Main Base N62583-09-F-0104);**
 5. **Naval Air Station Oceana (Dam Neck Annex N62473-07-F-4005);**
and
 6. **Naval Station Newport (N62583-08-F-0095).**

Commander, Naval Facilities Engineering Command, Comments

The Commander, NAVFAC, agreed with the recommendation and stated that as of October 1, 2016, base-level PWOs had identified and nominated qualified CORs and the NAVFAC-EXWC contracting officers had appointed qualified CORs for the six ESPCs noted in the recommendation.

Our Response

Comments from the Commander, NAVFAC, addressed all specifics of the recommendation. In addition, NAVFAC officials provided the COR appointment letters for the six ESPCs. No further comments are required.

- b. Direct Naval Facilities Engineering Command Expeditionary Warfare Center officials to document the validity of prior year energy savings performance contracts contractor-claimed energy savings achieved for the following energy savings performance contracts:**
- 1. Commander Fleet Activity Yokosuka post-installation period completed on November 14, 2008, and performance periods of September 1, 2008, through August 31, 2009, and September 1, 2009, through August 31, 2010;**
 - 2. Naval Air Station Oceana (Dam Neck Annex) post-installation period completed on September 30, 2008, and performance periods of October 1, 2008, through September 30, 2009, and October 1, 2009, through September 30, 2010;**
 - 3. Naval Air Station Oceana (Main Base) post-installation period completed on December 17, 2010;**
 - 4. Naval Station Great Lakes post-installation period completed on August 31, 2011, and performance period of September 1, 2012, through August 31, 2013; and**
 - 5. Marine Corps Logistic Base Albany post-installation period completed on February 29, 2012, and performance periods of May 1, 2012, through April 30, 2013, and May 1, 2013, through April 30, 2014.**

Commander, Naval Facilities Engineering Command, Comments

The Commander, NAVFAC, agreed with the recommendation and stated that since November 2012, NAVFAC officials have issued ESPC-related guidance to revise and clarify the process of reviewing and validating the performance of ESPCs. The Commander noted that at NAVFAC Headquarters' direction, NAVFAC-EXWC officials were actively reviewing existing documentation to validate contractor-claimed energy savings for the ESPC periods in the recommendation. The Commander stated that the target date for NAVFAC to complete the reviews is April 28, 2017.

Our Response

Comments from the Commander, NAVFAC, addressed all the specifics of the recommendation and no further comments are required.

- c. **Direct Naval Facilities Engineering Command Expeditionary Warfare Center contracting officers, based on the results of the validation and as statutorily mandated, to take appropriate contractual action (if necessary), such as recovering unrealized guaranteed energy savings or canceling the remaining portion of the contract.**

Commander, Naval Facilities Engineering Command, Comments

The Commander, NAVFAC, agreed with the recommendation and stated that based on the results of the validation, NAVFAC EXWC contracting officers would initiate appropriate contractual action as required. The Commander set a target completion date of June 30, 2017.

Our Response

Comments from the Commander, NAVFAC, addressed all specifics of the recommendation and no further comments are required.

- d. **Direct Naval Facilities Engineering Command officials to perform Naval Facilities Engineering Command–required higher-level reviews of the energy savings performance contracts contractor-claimed energy savings achieved for:**
1. **Naval Air Station Oceana (Dam Neck Annex) for performance period of September 1, 2012, through August 31, 2013; and**
 2. **Naval Air Station Oceana (Main Base) for performance periods of February 1, 2012, through January 31, 2013, February 1, 2013, through January 31, 2014, and February 1, 2014, through January 31, 2015.**

Commander, Naval Facilities Engineering Command, Comments

The Commander, NAVFAC, agreed with a draft report recommendation that NAVFAC perform a higher-level review of contractor-claimed CFA Yokosuka energy savings for the September 1, 2012, through August 31, 2013, performance period. In addition, the Commander stated that for NAS Oceana, NAVFAC officials will complete the remaining specified higher-level reviews by April 28, 2017.

Our Response

The Commander provided the previously performed CFA Yokosuka higher-level review. As a result, we deleted the CFA Yokosuka recommendation from this report. The comments from the Commander, NAVFAC, addressed all specifics of the renumbered recommendations and no further comments are required.

- e. **Develop and implement a plan to manage energy savings performance contracts and that addresses the importance of:**
1. **Naval Facilities Engineering Command Expeditionary Warfare Center and base-level public works personnel properly conducting contract administration of all ongoing energy performance services contracts, regardless of the contract phase;**
 2. **base-level public works personnel notifying the Naval Facilities Engineering Command Expeditionary Warfare Center contracting officer of vacancies in contracting officer's representative positions;**
 3. **base-level public works personnel maintaining continuity of contracting officer's representative duties until the contracting officer's representative vacancies are filled;**
 4. **Naval Facilities Engineering Command Expeditionary Warfare Center contracting officers implementing quality assurance surveillance plans to monitor ongoing performance-phase energy performance services contracts;**
 5. **Naval Facilities Engineering Command Expeditionary Warfare Center and base-level public works personnel completing validation of contractor-provided post-installation and measurement and verification reports and completing higher-level reviews of those validations; and**
 6. **Naval Facilities Engineering Command Expeditionary Warfare Center officials, base-level public works personnel, and Naval Facilities Engineering Command subject-matter experts resolving disputes related to the methods for validation of post-installation and measurement and verification.**

Commander, Naval Facilities Engineering Command, Comments

The Commander, NAVFAC, agreed with the recommendation and stated that since 2012, NAVFAC officials had implemented additional guidance in support of ESPC management. The Commander noted that all ongoing performance-phase ESPCs now have QASPs and assigned CORs. In addition, he stated that NAVFAC officials will review existing guidance, processes, and staffing, and, where necessary, develop and implement changes to properly manage ESPCs addressing the importance of Recommendations 1.e.1 through 1.e.6. Furthermore, the Commander stated that an updated NAVFAC Energy Project Management Guide would be published by December 30, 2016, and that any gaps would be addressed through NAVFAC instruction, formal letter, or e-mail. Finally, the Commander noted that NAVFAC officials were providing training to ESPC team members on the guidance changes, and that all actions should be completed by April 28, 2017.

Our Response

Comments from the Commander, NAVFAC, addressed all specifics of the recommendation and no further comments are required. As of January 11, 2017, NAVFAC officials stated they were revising the NAVFAC Energy Project Management Guide.

Appendix A

Scope and Methodology

We conducted this performance audit from March 2016 through November 2016 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 objectives. We believe that the evidence obtained provides a reasonable basis for our finding and conclusions based on our audit objectives.

Guidance for ESPC Project Management

To determine whether the DON was effectively managing ESPCs, we reviewed Federal, DoD, DOE, DON, and NAVFAC guidance to identify Navy ESPC program management requirements. We referenced the following primary guidance used during the review:

- 42 U.S.C. § 8287 (2011), “Energy Savings Performance Contracts”
- FAR Part 1, “Federal Acquisition Regulations System,” Subpart 1.602-2, “Responsibilities”
- FAR Part 46, “Quality Assurance,” Subpart 46.4, “Government Contract Quality Assurance”
- “DoD Contracting Officer Representative Handbook,” March 22, 2012
- “DOE-Federal Energy Management Program M&V Guidelines: Measurement and Verification for Performance-Based Contracts,” Version 4.0, November 2015
- Naval Facilities Acquisition Supplement Subpart 41.2, “Acquiring Utility Services”
- NAVFAC Instruction 4200.1, “Contracting Officer’s Representatives,” September 18, 2013
- NAVFAC Business Management System Process B-5.1.2, “Energy-Funded Projects”
- NAVFAC Energy Project Management Guide, November 2012
- Navy Installations Command Instruction 4101.2, “Evaluation of Energy Project Investment Performance,” March 16, 2015

Review of NAVFAC CORs and QASPs

We interviewed officials at DON headquarters, NAVFAC headquarters, and NAVFAC-EXWC to understand how NAVFAC managed the Navy ESPC program and administered ongoing ESPC projects. To determine whether NAVFAC effectively managed the appointment of CORs and development of QASPs, we analyzed NAVFAC-provided project data for 42 ongoing ESPC projects, valued at \$1.95 billion. The 42 ongoing ESPC projects were awarded between 1999 and 2016. Thirty-eight of the ESPCs, valued at \$1.55 billion, were in the performance phase, while the remaining 4 ESPCs, valued at \$395.7 million, were in the construction phase. To determine the number of performance-phase CORs appointed and performance-phase QASPs developed as of September 2015, April 2016, and August 2016, we obtained and reviewed available COR appointment letters, contractually implemented QASPs, and other available documentation. In April 2016, we visited and interviewed officials at NAVFAC-EXWC Port Hueneme, California. We also interviewed officials at NAVFAC Headquarters, Navy Yard, Washington, D.C., and select base-level PWO officials to understand specific performance-phase COR appointment issues and the status of compliance with NAVFAC headquarters guidance to appoint CORs.

Review of NAVFAC Validation of Contractor PI and M&V Reports

To determine whether NAVFAC effectively validated contractor-claimed energy savings in ESPC PI and M&V reports, we nonstatistically selected five ESPC projects for more detailed review. We based our contract selection on ESPC projects with 12-to 22-year lengths that had completed their construction phases and had completed 4 to 7 years of their performance phases. Of the 38 ESPCs, valued at \$1.55 billion, in the performance phase, we identified 19 ESPCs, with a total payment value of \$877 million, which had completed 4 to 7 years of the performance phase.³⁶ From this subset we selected the five highest valued ongoing ESPCs (four Navy and one Marine Corps) for review, with a total contract value of \$644.8 million. Table 4 lists the five ongoing performance-phase ESPCs, the total contract value, and the total payments made to the contractor.

³⁶ The 19 ESPCs were contracted between FY 2006 and FY 2010.

Table 4. NAVFAC ESPC Projects Reviewed

| Contract Number | ESPC Location | Total Value of Contracts (in millions as of award date) | Total Value of Payments Made to Contractor (in millions as of August 1, 2016) |
|------------------|-----------------------------|---|---|
| N47408-00-D-8117 | CFA Yokosuka | \$342.9 | \$107.8 |
| N62473-07-F-4005 | NAS Oceana (Dam Neck Annex) | 68.3 | 22.4 |
| N62583-09-F-0104 | NAS Oceana (Main Base) | 124.3 | 29.5 |
| N62583-10-F-0324 | NS Great Lakes | 45.5 | 10.4 |
| N62583-10-F-0311 | MCLB Albany | 63.9 | 8 |
| Totals | | \$644.8* | \$178.1* |

* Table entries are in millions and rounded to the nearest tenth. Total entries equal the actual sum in millions to the nearest tenth. Totals may not equal the actual sum because of rounding.

For each of the five ongoing performance-phase ESPCs, we reviewed NAVFAC-EXWC contract files to determine if NAVFAC officials validated the contractor-claimed energy savings defined in the PI and annual M&V reports through a base-level review and a higher-level review. We reviewed ESPC contract clauses, modifications, delivery order schedules, and business clearance memorandums to determine contractual PI and M&V report content and submission requirements, as well as the presence of any contractual completion dates for Navy review of PI and M&V reports. We obtained contractor PI and M&V report submissions as well as all available NAVFAC validation and higher-level reviews of the subject PI and M&V reports. We interviewed officials at NAVFAC headquarters and NAVFAC-EXWC to determine reasons for the absence of the NAVFAC validation and higher-level review reports, internal disputes on validation findings, and NAVFAC review of contractor-claimed price adjustments. In addition, we obtained and compared payment invoices to associated ESPC funding modifications to identify any overpayments or underpayments made to the contractors.

Use of Computer-Processed Data

We did not use computer-processed data to perform this audit.

Prior Coverage

During the last 5 years, the Government Accountability Office (GAO) and the Naval Audit Service issued three reports discussing Department of the Navy ESPCs or NAVFAC energy management. Unrestricted GAO reports can be accessed at <http://www.gao.gov>. Naval Audit Service reports are not available over the Internet.

GAO

Report No. GAO-15-432, "Energy Savings Performance Contracts: Additional Actions Needed to Improve Federal Oversight," June 2015

The GAO examined the extent to which agencies have used ESPCs since 2005, the extent to which agencies plan to use ESPCs, whether the projects achieved their expected cost and energy savings, and whether Federal agencies have overseen and evaluated ESPCs. The GAO found that contractor energy savings reports overstated actual energy savings for 14 of the 20 ESPCs reviewed. The GAO noted that Federal agencies are not always aware of how much savings were not achieved and did not perform some oversight activities included in guidance because they were unaware of these duties or how to perform them. The GAO made several recommendations to improve ESPC project oversight, clearer reporting of savings, improved training on oversight activities, and systematic evaluations of ESPC portfolios.

Naval Audit Service

Report No. N2013-0031, "Followup on Internal Controls Over Department of the Navy Energy Funding and Financing Tools," June 13, 2013

The Naval Audit Service conducted followup on recommendations from NAS Report N2011-0023 and found that a prior report recommendation to ensure that acquisition personnel perform their assigned duties and to strengthen controls and oversight over procurement performance management remained open.

Report No. N2011-0023, "Internal Controls Over Department of Navy Energy Funding and Financing Tools," March 4, 2011

The Naval Audit Service reviewed 104 Department of the Navy energy projects using the Energy Conservation Investment Program, ESPCs, and Utility Energy Services Contracts. The audit found that energy projects using these programs were not effectively managed to verify energy reductions and cost savings. The audit also found that NAVFAC personnel did not effectively manage the ESPC validation process, which included M&V reviews, and subsequent payments. The report noted that the validation process was essential to ensure that reported savings and subsequent payments were accurate.

Appendix B

Appointment of CORs for NAVFAC Ongoing Performance-Phase ESPCs

| | Delivery Order/Task Order Number | Location | ESPC Start Date | September 28, 2015 | | April 16, 2016 | | August 1, 2016 | |
|---|----------------------------------|--|-----------------|--------------------|----------------------------------|-------------------|----------------------------------|-------------------|--------------------------------|
| | | | | COR not appointed | ESPC Payment value (in millions) | COR not appointed | ESPC Payment value (in millions) | COR not appointed | ESPC Payment value in Millions |
| 1 | N47408-99-F-4117 | Naval Ship Yard Portsmouth, New Hampshire Project #2 | 5/2004 | X | \$103 | X | \$103 | | |
| 2 | DACA87-97-D-0069 | Marine Corps Air Ground Combat Center 29 Palms, California Project #1 | 10/2001 | X | 7 | | | | |
| 3 | DEAC05-99OR22702-EJP1 | Naval Air Station Patuxent River, Maryland | 5/2002 | X | 7 | X | 7 | | |
| 4 | F44650-99-D-0001 0001 | Joint Base Anacostia-Bolling, Washington, D.C. | 12/2001 | X | 1 | X | 1 | X | \$1 |
| 5 | N47408-01-F-4710 | Marine Corps Air Station Miramar, California Project #1 | 2/2007 | X | 9 | | | | |
| 6 | N47408-01-F-4713 | Marine Corps Air Station Beaufort, South Carolina Project #1 | 1/2006 | X | 32 | | | | |
| 7 | DACA87-97-D-0069-EJP3 | Marine Corps Air Ground Combat Center 29 Palms, California Project #'s 2 and 3 | 12/2004 | X | 160 | | | | |
| 8 | N47408-02-F-4965 | Marine Corps Base Quantico, Virginia Project #1 | 10/2004 | X | 121 | X | 121 | | |

Appointment of CORs for NAVFAC Ongoing Performance-Phase ESPCs (cont'd)

| | Delivery Order/Task Order Number | Location | ESPC Start Date | September 28, 2015 | | April 16, 2016 | | August 1, 2016 | |
|----|----------------------------------|--|-----------------|--------------------|----------------------------------|-------------------|----------------------------------|-------------------|--------------------------------|
| | | | | COR not appointed | ESPC Payment value (in millions) | COR not appointed | ESPC Payment value (in millions) | COR not appointed | ESPC Payment value in Millions |
| 9 | N47408-03-F-5114 | Naval Air Station Oceana, Virginia Project #1 | 1/2005 | X | 16 | X | 16 | X | 16 |
| 10 | N47408-03-F-5272 | Joint Expeditionary Base Little Creek, Virginia Project #1 | 7/2006 | X | 61 | X | 61 | | |
| 11 | N47408-00-D-8131-DO2 | Naval Air Station Sigonella, Italy | 12/2005 | X | 16 | X | 16 | | |
| 12 | N47408-98-D-2007-0004 | Naval Station Guantanamo Bay, Cuba Project #4 | 6/2004 | X | 30 | | | | |
| 13 | N62473-06-F-3039 | Marine Corps Air Station Miramar, California Project #2 | 2/2007 | X | 3 | | | | |
| 14 | N62473-06-F-3050 | Marine Corps Base Quantico, Virginia Project #2 | 7/2007 | X | 7 | X | 7 | | |
| 15 | N47408-00-D-8117 | Commander Fleet Activities Yokosuka, Japan | 9/2008 | X | 343 | X | 343 | X | 343 |
| 16 | N62473-06-F-3075 | Norfolk Naval Shipyard, Virginia Project #1 | 6/2008 | X | 9 | | | | |
| 17 | N62473-07-F-4005 | Naval Air Station Oceana- Dam Neck Annex, Virginia | 9/2008 | X | 68 | X | 68 | X | 68 |
| 18 | N62473-07-F-4082 | Joint Expeditionary Base Little Creek, Virginia Project #2 | 11/2009 | X | 40 | X | 40 | | |
| 19 | N62583-08-F-0029 | Marine Corps Base Kaneohe Bay, Hawaii | 8/2013 | X | 28 | | | | |

Appointment of CORs for NAVFAC Ongoing Performance-Phase ESPCs (cont'd)

| | Delivery Order/Task Order Number | Location | ESPC Start Date | September 28, 2015 | | April 16, 2016 | | August 1, 2016 | |
|----|----------------------------------|--|-----------------|--------------------|----------------------------------|-------------------|----------------------------------|-------------------|--------------------------------|
| | | | | COR not appointed | ESPC Payment value (in millions) | COR not appointed | ESPC Payment value (in millions) | COR not appointed | ESPC Payment value in Millions |
| 20 | N62583-08-F-0095 | Naval Station Newport, Rhode Island | 4/2010 | X | 19 | X | 19 | X | 19 |
| 21 | N62583-08-F-0139 | Naval Air Station Key West, Florida | 7/2009 | X | 21 | | | | |
| 22 | N62583-09-F-0021 | Joint Region Marianas, Guam | 4/2011 | X | 34 | X | 34 | | |
| 23 | N62583-09-F-0105 | Marine Corps Air Station Beaufort, South Carolina DO#3 | 8/2010 | X | 8 | | | | |
| 24 | N62583-09-F-0104 | Naval Air Station Oceana, Virginia Project #2 | 2/2011 | X | 124 | X | 124 | X | 124 |
| 25 | N62583-10-F-0310 | Naval Station Joint Reserve Base Fort Worth, Texas | 9/2011 | X | 14 | | | | |
| 26 | N62583-10-F-0321 | Naval Ship Yard Portsmouth, New Hampshire Project #3 | 1/2011 | X | 9 | X | 9 | | |
| 27 | N62583-10-F-0325 | Norfolk Naval Shipyard, Virginia Project #2 | 6/2011 | X | 13 | | | | |
| 28 | N62583-10-F-0309 | Naval Underground Warfare Center Keyport, Washington | 12/2010 | X | 44 | X | 44 | | |
| 29 | N62583-10-F-0311 | Marine Corps Logistics Base Albany, Georgia Project #2 | 7/2011 | X | 64 | | | | |

Appointment of CORs for NAVFAC Ongoing Performance-Phase ESPCs (cont'd)

| | Delivery Order/Task Order Number | Location | ESPC Start Date | September 28, 2015 | | April 16, 2016 | | August 1, 2016 | |
|---------------|----------------------------------|---|-----------------|--------------------|----------------------------------|-------------------|----------------------------------|-------------------|--------------------------------|
| | | | | COR not appointed | ESPC Payment value (in millions) | COR not appointed | ESPC Payment value (in millions) | COR not appointed | ESPC Payment value in Millions |
| 30 | N47408-00-D-8131-DO3 | Commander Navy Region Europe (Sigonella and Naples), Italy | 11/2013 | X | 14 | X | 14 | | |
| 31 | DACA87-97-D-0072-EJG1 | National Military Medical Center Bethesda, Washington, D.C. | 8/2012 | X | 9 | X | 9 | | |
| 32 | N62583-10-F-0314 | Commander Navy Region Pearl Harbor, Hawaii Project #2 | 8/2011 | | | | | | |
| 33 | N62473-06-F-3069 | Commander Navy Region Pearl Harbor, Hawaii Project #1 | 1/2008 | | | | | | |
| 34 | N47408-03-F-5305 | Marine Corps Logistics Base Albany, Georgia Project #1 | 12/2004 | | | | | | |
| 35 | N62583-10-F-0315 | Naval Station Rota, Spain | 8/2012 | | | | | | |
| 36 | N62583-10-F-0308 | Naval Base Kitsap-Keyport, Washington | 12/2010 | | | | | | |
| 37 | N62583-10-F-0324 | Naval Station Great Lakes, Illinois Project #1 | 9/2011 | | | | | | |
| 38 | N62583-08-F-0087 | Naval Support Activity Philadelphia -Pennsylvania | 11/2009 | | | | | | |
| Totals | | | | 31 | \$1.434 | 18 | \$1.04 | 6 | \$571 |

Appendix C

Higher-Level Reviews of PI and M&V Base-Level Validations by ESPC

| Periods When S8-1s Were Performed | S8-2 M&V Performed After an S8-1 Performed Yes or No | S8-3 M&V Performed After an S8-2 Performed Yes or No | Dollar Value of Higher-Level Reviews Not Completed (in millions) |
|--|--|--|--|
| Commander Fleet Activities Yokosuka | | | |
| Sept 1, 2010 – Aug 31, 2011 | Yes | Yes | \$0 |
| Sept 1, 2011 – Aug 31, 2012 | Yes | Yes | 0 |
| Sept 1, 2012 – Aug 31, 2013 | Yes | Yes | 0 |
| Sept 1, 2013 – Aug 31, 2014 | Yes | Yes | 0 |
| Sept 1, 2014 – Aug 31, 2015 | Yes | Yes | 0 |
| Subtotal | 5 Yes, 0 No | 5 Yes, 0 No | \$0 |
| Naval Air Station Oceana (Main Base) | | | |
| Feb 1, 2011 – Jan 31, 2012 | Yes | Yes | 0 |
| Feb 1, 2012 – Jan 31, 2013 | No | N/A | \$5 |
| Feb 1, 2013 – Jan 31, 2014 | Yes | No | \$5.2 |
| Feb 1, 2014 – Jan 31, 2015 | Yes | No | \$5.4 |
| Subtotal | 3 Yes, 1 No | 1 Yes, 2 No, 1 N/A | \$15.6 |
| Naval Air Station Oceana (Dam Neck Annex) | | | |
| Oct 1, 2010 – Sept 30, 2011 | Yes | Yes | 0 |
| Oct 1, 2011 – Sept 30, 2012 | Yes | Yes | 0 |
| Oct 1, 2012 – Sept 30, 2013 | Yes | No | \$3.4 |
| Oct 1, 2013 – Sept 30, 2014 | Yes | Yes | 0 |
| Subtotal | 4 Yes, 0 No | 3 Yes, 1 No | \$3.4 |
| Naval Station Great Lakes | | | |
| Sept 1, 2011 – Aug 31, 2012 | Yes | Yes | \$0 |
| Sept 1, 2013 – Aug 31, 2014 | Yes | Yes | 0 |
| Sept 1, 2014 – Aug 31, 2015 | Yes | Yes | 0 |
| Subtotal | 3 Yes, 0 No | 3 Yes, 0 No | \$0 |

Higher-Level Reviews of PI and M&V Base-Level Validations by ESPC (cont'd)

| Periods When S8-1s Were Performed | S8-2 M&V Performed After an S8-1 Performed Yes or No | S8-3 M&V Performed After an S8-2 Performed Yes or No | Dollar Value of Higher-Level Reviews Not Completed (in millions) |
|---|--|--|--|
| Marine Corps Logistics Base Albany | | | |
| May 1, 2011 – Apr 30, 2012 | Yes | Yes | \$0 |
| May 1, 2014 – Apr 30, 2015 | Yes | Yes | 0 |
| Subtotal | 2 Yes, 0 No | 2 Yes, 0 No | |
| Totals | 17 Yes, 1 No | 14 Yes, 3 No, 1 N/A | \$19 |

N/A: payment amount not applicable for ESPC payments where NAVFAC validation S8-2 review and S8-3 review were not performed in same period. Table entries are in millions and rounded to the nearest tenth. Total entries equal the actual sum in millions to the nearest tenth. Totals may not equal the actual sum because of rounding.

Management Comments

Naval Facilities Engineering Command



DEPARTMENT OF THE NAVY
NAVAL FACILITIES ENGINEERING COMMAND
1322 PATTERSON AVENUE, SE SUITE 1000
WASHINGTON NAVY YARD DC 20374-5065

5041
Ser IG/388
05 DEC 2016

From: Commander, Naval Facilities Engineering Command
To: Department of Defense Inspector General
(Attn: Program Director, Contract Management and Payments)

Subj: NAVAL FACILITIES ENGINEERING COMMAND MANAGEMENT OF ENERGY SAVINGS PERFORMANCE CONTRACTS NEEDS IMPROVEMENT (Project No. D2016-D000CI-0092.000)

Ref: (a) DoDIG Draft Report 2016-0092 dated 4 Nov 16

Encl: (1) NAVFAC management responses
(2) NAVFAC technical comments matrix

1. In coordination with Naval Facilities Engineering and Expeditionary Warfare Center, the Naval Facilities Engineering Command (NAVFAC) is providing enclosures (1) and (2) in response to reference (a).
2. NAVFAC has been awarding Energy Savings Performance Contracts (ESPCs) since 1998 with an average of 4 ESPCs awarded per year valued at \$11 million per project. In support of the President's Performance Contracting Challenge, NAVFAC significantly increased the number and value of projects awarded per year. In parallel with this effort, NAVFAC strengthened the leadership of the Public Works Business Line and ESPC Program, and created a senior executive service position in October 2014 to oversee all of Public Works, including ESPCs. Since the establishment of that position, the Assistant Commander for Public Works has designated a full-time Energy Director, reorganized headquarters and the regional offices, and published new guidance, metrics, policies and training to ensure that ESPCs are managed effectively. In order to ensure compliance with federal law, the FAR, and DoD and NAVFAC ESPC guidance, the Assistant Commander for Public Works continues to collaborate with the Assistant Commander for Acquisition to improve project tracking and Program Management functions of ESPCs.
3. We acknowledge and appreciate the opportunity to continuously improve oversight in the execution and performance of ESPC projects. We therefore concur, with comment, on the draft Report. None of the findings in the report, especially as based on current conditions, rise to the level of a "material weakness" as defined in DoDI 5010.40. The Assistant Commander for Public Works, with the full support of NAVFAC leadership, continues to communicate the importance of contract administration; compliance with federal regulations; and adequate management of ESPC projects, to include conduct of measurement and verification reports and the validation of energy savings. NAVFAC has and will continue to effectively manage the life cycle of ESPC projects.

4. The NAVFAC Headquarters point of contact is [REDACTED]

[REDACTED]
[REDACTED]
Executive Director

Copy to:
OASN (EI&E)
NAVFAC PW
NAVFAC AQ
NAVFAC EXWC

Naval Facilities Engineering Command (cont'd)

**Department of Defense Office of Inspector General (DoD OIG) Draft Report
D2016-D000CI-0092.000 of 4 November 2016:
NAVAL FACILITIES ENGINEERING COMMAND MANAGEMENT OF ENERGY
SAVINGS PERFORMANCE CONTRACTS NEED IMPROVEMENT**

The Naval Facilities Engineering Command's (NAVFAC) responses to the findings and recommendations of the DoD IG subject Draft Report are provided below.

The DoD IG recommends that the Commander, Naval Facilities Engineering Command:

Recommendation 1.a. Direct base-level public works officers to identify and nominate qualified contracting officer's representatives, and the Naval Facilities Engineering Command Expeditionary Warfare Center contracting officers to appoint qualified contracting officer's representatives (COR) for energy savings performance contracts at:

1. Commander Fleet Activity Yokosuka (N47408-00-D-8117-0002);
2. Joint Base Anacostia-Bolling (F44650-99-D-0001 0001);
3. Naval Air Station Oceana (Main Base N47408-03-F-5114);
4. Naval Air Station Oceana (Main Base N62583-09-F-0104);
5. Naval Air Station Oceana (Dam Neck Annex N62473-07-F-4005); and
6. Naval Station Newport (N62583-08-F-0095).

NAVFAC Response: **Concur.** As of 1 October 2016, base-level public works officers identified and nominated qualified contracting officer's representatives, and the Naval Facilities Engineering Command Expeditionary Warfare Center (EXWC) contracting officers appointed qualified contracting officer's representatives for the energy savings performance contracts (ESPC) at all of the above identified locations. Processes and metrics are in place to ensure timely COR assignments are made on all future ESPCs.

Target Completion Date: Action complete as of 1 October 2016. Request the current status of this recommendation be acknowledged in the final Report and that this recommendation be closed.

Recommendation 1.b. Direct Naval Facilities Engineering Command Expeditionary Warfare Center officials to document the validity of prior year energy savings performance contracts contractor-claimed energy savings achieved for the following energy savings performance contracts:

1. Commander Fleet Activity Yokosuka post-installation period completed on November 14, 2008, and performance periods of September 1, 2008, through August 31, 2009, and September 1, 2009, through August 31, 2010;
2. Naval Air Station Oceana (Dam Neck Annex) post-installation period completed on September 30, 2008, and performance periods of October 1, 2008, through September 30, 2009, and October 1, 2009, through September 30, 2010;
3. Naval Air Station Oceana (Main Base) post-installation period completed on December 17, 2010;

Naval Facilities Engineering Command (cont'd)

Final Report
Reference

4. Naval Station Great Lakes post-installation period completed on August 31, 2011, and performance period of September 1, 2012, through August 31, 2013; and
5. Marine Corps Logistic Base Albany post-installation period completed on February 29, 2012, and performance periods of May 1, 2012, through April 30, 2013, and May 1, 2013, through April 30, 2014.

NAVFAC Response: Concur. Since November 2012, NAVFAC has issued additional ESPC-related guidance to revise and clarify the process of reviewing and validating the performance of ESPCs. As directed by NAVFAC HQ, NAVFAC EXWC officials are actively reviewing existing documentation to validate contractor claimed energy savings for the ESPC periods described above. Where documentation does not currently exist, NAVFAC EXWC officials are otherwise working to document the validity of the contractor-claimed energy savings.

Target Completion Date: Target completion date for this action item is 28 April 2017.

Recommendation 1.c. Direct Naval Facilities Engineering Command Expeditionary Warfare Center contracting officers, based on the results of the validation and as statutorily mandated, to take appropriate contractual action (if necessary), such as recovering unrealized guaranteed energy savings or canceling the remaining portion of the contract.

NAVFAC Response: Concur. Based on the results of the validation, NAVFAC EXWC contracting officers will initiate appropriate contractual action as required.

Target Completion Date: Target completion date for this action item is 30 June 2017.

Recommendation 1.d. Direct Naval Facilities Engineering Command officials to perform Naval Facilities Engineering Command–required higher-level reviews of the energy savings performance contracts contractor-claimed energy savings achieved for:

1. Commander Fleet Activity Yokosuka for performance period of September 1, 2012, through August 31, 2013;
2. Naval Air Station Oceana (Dam Neck Annex) for performance period of September 1, 2012, through August 31, 2013; and
3. Naval Air Station Oceana (Main Base) for performance periods of February 1, 2012, through January 31, 2013, February 1, 2013 through January 31, 2014, and February 1, 2014, through January 31, 2015.

NAVFAC Response: Concur. For item 1, Commander Fleet Activity Yokosuka, higher-level review was completed and documentation will be re-submitted via separate correspondence to substantiate this item. For Naval Air Station Oceana, NAVFAC officials are completing the remaining higher-levels reviews specified in the recommendation above.

Target Completion Date: Target completion date for this action item is 28 April 2017.

Recommendation
1.d.1 deleted
Renumbered 1.d.1
Renumbered 1.d.2

Naval Facilities Engineering Command (cont'd)

Recommendation 1.e. Develop and implement a plan to manage energy savings performance contracts that addresses the importance of:

1. Naval Facilities Engineering Command Expeditionary Warfare Center and base-level public works personnel properly conducting contract administration of all ongoing energy performance services contracts, regardless of the contract phase;
2. base-level public works personnel notifying the Naval Facilities Engineering Command Expeditionary Warfare Center contracting officer of vacancies in contracting officer's representative positions;
3. base-level public works personnel maintaining continuity of contracting officer's representative duties until the contracting officer's representative vacancies are filled;
4. Naval Facilities Engineering Command Expeditionary Warfare Center contracting officers implementing quality assurance surveillance plans to monitor ongoing performance-phase energy performance services contracts;
5. Naval Facilities Engineering Command Expeditionary Warfare Center and base-level public works personnel completing validation of contractor-provided post-installation and measurement and verification reports and completing higher-level reviews of those validations; and
6. Naval Facilities Engineering Command Expeditionary Warfare Center officials, base-level public works personnel, and Naval Facilities Engineering Command subject-matter experts resolving disputes related to the methods for validation of post-installation and measurement and verification.

NAVFAC Response: Concur. Since 2012, NAVFAC has implemented additional guidance in support of the management of ESPCs to include additional ESPC-related guidance in the "NAVFAC Energy Project Management Guide" and in the NAVFAC Business Management System; and COR guidance in NAVFAC Instruction 4200.1, "Contracting Officer's Representative." Currently all ongoing performance-phase ESPCs have quality assurance service plans developed and contracting officer representatives assigned. NAVFAC will review existing guidance, processes and staffing; and where necessary, develop and implement changes to properly manage ESPCs that addresses the importance of the above 6 items. Additionally, an updated Energy Project Manager Guide will be published by December 30 that includes the above items. Any gaps will be addressed and further enforced through formal channels such as instruction, formal letter, or e-mail. Additionally, NAVFAC is providing training to all members of the ESPC team, including COR's and subject matter experts, on these items.

Target Completion Date: Target completion date for this action item is 28 April 2017.

Naval Facilities Engineering Command (cont'd)

**Final Report
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**Department of Defense Office of Inspector General (DoD OIG) Draft Report
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NAVAL FACILITIES ENGINEERING COMMAND MANAGEMENT OF ENERGY SAVINGS PERFORMANCE CONTRACTS NEED
IMPROVEMENT**

| Comment | Page | DoD IG | NAVFAC Comment |
|---------|------------------------------------|--|---|
| 1. | cover (report title), i, ii, and 2 | "Naval Facilities and Engineering Command..." | The correct command title is "Naval Facilities Engineering Command". Please update throughout the report as appropriate. |
| 2. | i and 6 | "NAVFAC officials did not effectively manage 38 ongoing performance-phase ESPCs, valued at \$1.55 billion." | A full evaluation of the effectiveness of management was not performed. The scope of the audit was to perform an administrative review (contracting officer representative (COR) designations and quality assurance surveillance plans (QASPs)) for the 38 ESPC projects and a more detailed review of only 5 projects. More accurately stated: "There were delays in NAVFAC implementation of certain management tools in 38 ongoing performance-phase ESPCs valued at \$1.55 billion." |
| 3. | i and 6 | "As of August 1, 2016, NAVFAC officials had reduced the number of ongoing performance-phase ESPCs without and appointed contracting officer's representatives from 31 to 6 and had developed a quality assurance surveillance plan for all 38 ongoing performance-phase ESPCs." | As of 20 September 2016, NAVFAC officials had assigned CORs and had developed a QASP for all 38 ongoing performance-phase ESPCs. |
| 4. | i and 6 | "For the five ongoing performance-phase ESPC projects reviewed in more detail, NAVFAC officials did not: <ul style="list-style-type: none"> validate the contractor-claimed energy savings of five ESPC post-implementation reports that supported a total of \$9.3 million in contract payments, | As of 1 December 2016, the NAVFAC Assistant Commander for Public Works has directed NAVFAC validate savings claimed in the 5 post implementation reports and 7 measurement and verification (M&V) reports; and perform higher level reviews for the 5 validation reports. " |

**Command Title
Revised**

Naval Facilities Engineering Command (cont'd)

Final Report Reference

**Department of Defense Office of Inspector General (DoD OIG) Draft Report
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NAVAL FACILITIES ENGINEERING COMMAND MANAGEMENT OF ENERGY SAVINGS PERFORMANCE CONTRACTS NEED IMPROVEMENT**

| Comment | Page | DoD IG | NAVFAC Comment |
|---------|----------|---|---|
| | | <ul style="list-style-type: none"> validate contractor-claimed energy savings in 7 of 25 measurement and verification reports (for four of the five ESPCs reviewed) that supported a total of \$39.4 million in contract payments, and perform higher-level reviews for 5 of 18 base-level validation reports (for three of the five ESPCs reviewed) that supported a total of \$35.2 million in contract payments. | |
| 5. | i and 6 | “This occurred because NAVFAC officials and base-level public works officers did not emphasize the need to have contracting officer’s representatives and quality assurance surveillance plans in place to monitor ongoing performance-phase ESPCs and did not prioritize validating the contractor’s post-installation and measurement and verification reports.” | NAVFAC officials are currently tracking COR assignments on all contracts to ensure full compliance with the FAR and NAVFACINST 4200.1. Additionally, in FY16, NAVFAC officials began tracking M&V validation compliance on all ESPCs in order to verify the claimed savings on ESPCs. |
| 6. | ii and 6 | “As a result, NAVFAC officials may not know whether the 38 ongoing performance-phase ESPCs, valued at \$1.55 billion, fully comply with Federal Acquisition Regulation (FAR), DoD, and NAVFAC guidance” | More accurately stated, “As a result, NAVFAC officials may not have known at the time whether the 38 ongoing performance-phase ESPCs, valued at \$1.55 billion, fully complied with Federal Acquisition Regulation (FAR), DoD, and NAVFAC guidance. However, as of the writing of this final Report, CORs and QASPs have been assigned to all ESPCs and validation of energy savings is in progress”. |
| 7. | ii and 6 | “In addition, the five ongoing performance-phase ESPC projects reviewed in more detail include approximately \$84 million in contract payments that remain questionable.” | It is misleading to say that \$84 million in contract payments “remain questionable.” NAVFAC completed first-level reviews validating energy savings for the five ongoing performance-phase ESPC projects reviewed in more detail. Information on these first-level reviews was shared with the audit team during the audit process. |

Revised last bullet

Revised \$84 million to \$67.6 million

Naval Facilities Engineering Command (cont'd)

**Final Report
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IMPROVEMENT**

| Comment | Page | DoDIG | NAVFAC Comment |
|---------|------|--|--|
| | | | NAVFAC officials remain confident in the results of these first level reviews. In addition, as of the issuance of this draft report, higher-level reviews are underway and will be completed in the near future. |
| 8. | 5 | <p>Review of Internal Controls</p> <p>“... We identified internal control weaknesses concerning NAVFAC officials’ ability to effectively:</p> <ul style="list-style-type: none"> • review and validate contractor-claimed energy savings presented in PI and M&V reports, and • manage the ESPC oversight process through timely appointment of CORs and development of QASPs. | ”Internal Controls Weakness” is not defined in DODI 5010.40. None of the findings in the Report, especially as based on current conditions, rise to the level of a “material weakness” as defined in DODI 5010.40. |
| 9. | 7 | “As of August 1, 2016, NAVFAC officials further reduced the number of ongoing performance-phase ESPCs without appointed CORs to 6, valued at \$572.1 million. NAVFAC officials stated that they were working to identify and appoint CORs for the remaining six ESPCs.” | As of 20 September 2016, NAVFAC Officials have assigned CORs to all ESPC projects. |
| 10. | 7 | “As of August 1, 2016, in addition to the ESPC at the CFA Yokosuka, Japan, the following ongoing performance-phase ESPCs still did not have appointed CORs: NAS Oceana (Dam Neck Annex), Joint Base Anacostia-Bolling, NS Newport, and two separate ESPCs for NAS Oceana (Main Base). | As of 20 September 2016, NAVFAC Officials have assigned CORs to all ESPC projects. |
| 11. | 8 | “NAVFAC officials did not perform the required validation of the contractor-claimed energy savings. Specifically, for the five ongoing performance-phase ESPCs reviewed in detail, NAVFAC officials did not: | As of 1 December 2016, and in accordance with direction from the NAVFAC Assistant Commander for Public Works, NAVFAC is currently validating savings claimed in the 5 post implementation reports and the 7 |

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NAVAL FACILITIES ENGINEERING COMMAND MANAGEMENT OF ENERGY SAVINGS PERFORMANCE CONTRACTS NEED IMPROVEMENT**

| Comment | Page | DoD OIG | NAVFAC Comment |
|---------|------|--|--|
| | | <ul style="list-style-type: none"> validate the contractor-claimed energy savings in five ESPC PI reports that supported a total of \$9.3 million in contract payments, validate the contractor-claimed energy savings in 7 of 25 M&V reports (for four of the five ESPCs reviewed) that supported a total of \$39.4 million in contract payments, and perform higher-level reviews for 5 of the 18 base-level validation reports (for three of the five ESPCs reviewed) that supported a total of \$35.2 million in contract payments. | measurement and verification reports, and performing higher level reviews for the 5 validation reports.” The M&V was completed at NAS Oceana (Main Base), and the savings claimed has been substantiated. Additionally, NAVFAC has provided documentation for the Yokosuka, Japan project (S8-3) (finding 1-d-1), and the savings claimed has been substantiated. This documentation was provided to the audit team during the discussion phase process. |
| 12. | 10 | “According to NAVFAC officials, the annual M&V report for this period of performance was not validated because NAVFAC personnel had other higher priorities” and Footnote 24 states “The Assistant Commander for Public Works, NAVFAC stated that the establishment of new ESPC projects and other public works functions took priority over completing the validation of PI and M&V reports and completing the higher level reviews.” | In 2014, the Assistant Commander for the Public Works Business Line (PWBL) was re-established as a senior executive service (SES) position to provide oversight and direction to the Public Works community, which includes ESPC projects. Since the establishment of the SES position, the PWBL has been reorganized and an Energy Director has been assigned to ensure ESPCs are being effectively managed. Additionally, under the direction of the Assistant Commander, the PWBL has published new guidance, metrics, policies and training concerning management of ESPCs. More accurately stated: “According to NAVFAC officials, the annual M&V report validation for this period of performance was delayed because, based on experience, NAVFAC personnel placed high confidence in the reports”. Revise Footnote 24 to more accurately reflect the |

Revised Third Bullet

Revised Footnote 24

Naval Facilities Engineering Command (cont'd)

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| | | | statement of the source, according to the source: “The Assistant Commander for Public Works, NAVFAC stated that high confidence in the PI and M&V reports and the establishment of new ESPC projects resulted in the Command taking measured risk by delaying the PI and M&V report validation and the higher level reviews.” |
| 13. | 14 | “The Assistant Commander and Director for Public Works, NAVFAC, stated that before September 2015, he did not emphasize the need to appoint CORs for the ongoing performance-phase ESPCs. On September 28, 2015, the Assistant Commander and Director for Public Works, NAVFAC, directed the base-level PWOs to nominate replacement CORs for the ongoing performance-phase ESPCs by October 9, 2015.” | More accurately stated and to reflect the statement of the source: “Since September 2015, the Assistant Commander for Public Works initiated and strengthened the collaboration with the Assistant Commander for Acquisition to ensure COR appointments were designated, in writing. On 28 September 2015, the Assistant Commander and Director for Public Works directed the base-level PWOs to nominate replacement CORs for the ongoing performance-phase ESPCs by 9 October 2015.” In 2014, the Assistant Commander for the Public Works Business Line (PWBL) was re-established as a senior executive service (SES) position to provide oversight and direction to the Public Works community, which includes ESPC projects. Since the establishment of the SES position, the PWBL has been reorganized and an Energy Director has been assigned to ensure ESPCs are being effectively managed. Additionally, under the direction of the Assistant Commander, the PWBL has published new guidance, metrics, policies and training |

**Revised through
addition of
Footnote 29**

Naval Facilities Engineering Command (cont'd)

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| | | | concerning management of ESPCs. NAVFAC continues to communicate the importance of contract administration; compliance with federal regulations; and adequate management of ESPC projects, to include conduct of M&Vs and the validation of energy savings. |
| 14. | 14 | “Despite this direction to appoint CORs to all ongoing ESPCs, as of April 29, 2016, the base-level PWOs still allowed other priorities, such as new ESPC projects and other public works functions, to overshadow appointing CORs for 18 ongoing performance-phase ESPCs. Though the Assistant Commander and Director for Public Works emphasized the importance of appointing CORs for the ESPCs in the performance phase, additional emphasis is needed at the NAVFAC-EXWC and PWO levels for all ongoing ESPCs.” | More accurately stated: “Despite this direction to appoint CORs to all ongoing ESPCs, as of 29 April 2016, the base-level PWOs still had not appointed 18 ongoing performance-phase ESPCs. Though the Assistant Commander for Public Works emphasized the importance of appointing CORs for the ESPCs in the performance phase, additional emphasis was needed at the NAVFAC-EXWC and PWO levels for all ongoing ESPCs. As of 20 September 2016, CORs have been assigned to all ESPC projects and all had developed a quality assurance surveillance plan for all 38 ongoing performance –phase ESPCs.” |
| 15. | 15 | “According to the Assistant Commander and Director for Public Works, NAVFAC oversight of new ESPC projects and many other public works functions took priority over completing the validation of the PI and M&V reports and higher-level reviews. He stated that many times validation of PI and M&V reports take a back seat because of other priorities.” | Revise Footnote 24 to more accurately reflect the statement of the source, according to the source: “According to the Assistant Commander for Public Works, NAVFAC had high confidence in the PI and M&V reports and, thus, the establishment of new ESPC projects resulted in the Command taking measured risk by delaying the PI and M&V report validation and the higher level reviews.” |
| 16. | 16 | “Because NAVFAC officials did not effectively manage the 38 ongoing performance-phase ESPCs, | A full evaluation of the effectiveness of ESPC project management was not performed. The scope of the audit |

**Revised
Footnote 24, Page 10**

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| | | valued at \$1.55 billion, they may not know whether those ESPCs fully comply with FAR Subpart 1.602-2, the DoD COR Handbook, and the NAVFAC Energy Project Management Guide. As of April 2016, NAVFAC officials did not appoint CORs, did not develop QASPs, did not validate the contractor-claimed energy savings and contractor payments, or perform higher-level reviews. However, as of August 1, 2016, NAVFAC contracting officials had developed QASPs for all 38 ongoing performance-phase ESPCs and had reduced the number of ESPCs without an appointed COR to 6, valued at \$572.1 million.” | was to perform an administrative review (contracting officer representative (COR) designations and quality assurance surveillance plans (QASPs)) for the 38 ESPC projects and a more detailed review of only 5 projects. More accurately stated: “NAVFAC’s delay in appointing CORs, preparing QASPs and performing higher level reviews, was not fully consistent with the FAR Subpart 1.602-2, the DoD COR Handbook, and the NAVFAC Energy Project Management Guide. As of April 2016, NAVFAC officials did not appoint CORs, did not develop QASPs, did not validate the contractor-claimed energy savings and contractor payments, or perform higher-level reviews. However, by September 2016, NAVFAC contracting officials had developed QASPs for all 38 ongoing performance-phase ESPCs and appointed CORs on all ESPC contracts.” |
| 17. | 17 | “The contractor payments are considered questionable because NAVFAC officials have not determined if the payments met statutory requirements to assure that energy savings were achieved and the savings generated are sufficient to pay for the ECM.” | It is misleading to say that \$84 million in contract payments “remain questionable.” NAVFAC completed first-level reviews validating energy savings for the five ongoing performance-phase ESPC projects reviewed in more detail. Information on these first-level reviews was shared with the audit team during the audit process. NAVFAC officials remain confident in the results of these first level reviews. In addition, as of the issuance of this draft report, higher-level reviews are underway and will be completed in the near future. |
| 18. | Recommendations | | See attachment. |

**Revised \$84 million
to \$67.6 million**

Acronyms and Abbreviations

| | |
|--------------------|---|
| CFA | Commander Fleet Activities |
| COR | Contracting Officer's Representative |
| DOE | Department of Energy |
| DON | Department of the Navy |
| ECM | Energy Conservation Measure |
| ESPC | Energy Savings Performance Contract |
| FAR | Federal Acquisition Regulation |
| M&V | Measurement and Verification (report) |
| MCLB | Marine Corps Logistics Base |
| NAS | Naval Air Station |
| NAVFAC | Naval Facilities Engineering Command |
| NAVFAC-EXWC | Naval Facilities Engineering and Expeditionary Warfare Center |
| NS | Naval Station |
| PI | Post Installation (report) |
| PWO | Public Works Officer |
| QASP | Quality Assurance Surveillance Plan |
| SME | Subject-Matter Expert |



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