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==== April 21, 2006 =====



# Information Systems Security

Defense Information Systems  
Agency Encore II Information  
Technology Solutions Contract  
(D-2006-078)

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### **Acronyms**

DFARS	Defense Federal Acquisition Regulations Supplement
DISA	Defense Information Systems Agency
DITCO	Defense Information Technology Contracting Organization
FAR	Federal Acquisition Regulation
IA	Information Assurance
IT	Information Technology
RFP	Request for Proposals

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

April 21, 2006

MEMORANDUM FOR CHAIRMAN OF THE JOINT CHIEFS OF STAFF  
UNDER SECRETARY OF DEFENSE FOR ACQUISITION,  
TECHNOLOGY, AND LOGISTICS  
UNDER SECRETARY OF DEFENSE FOR INTELLIGENCE  
COMMANDER, U.S. STRATEGIC COMMAND  
ASSISTANT SECRETARY OF DEFENSE FOR NETWORKS AND  
INFORMATION INTEGRATION/CHIEF INFORMATION  
OFFICER  
DIRECTOR, NATIONAL SECURITY AGENCY  
DIRECTOR, DEFENSE INFORMATION SYSTEMS AGENCY

SUBJECT: Report on the Defense Information Systems Agency Encore II Information  
Technology Solutions Contract (Report No. D-2006-078)

We are providing this report for review and comment. We considered comments from representatives of the Chairman of the Joint Chiefs of Staff; Under Secretary of Defense for Acquisition, Technology, and Logistics; Under Secretary of Defense for Intelligence; Assistant Secretary of Defense for Networks and Information Integration/Chief Information Officer; and the Defense Information Technology Contracting Organization (DITCO) on a draft of this report when preparing the final report. The Commander, U.S. Strategic Command and Director, National Security Agency did not respond to the draft report. During the audit of the Defense Information Systems Agency (DISA) Encore II contract, we identified potential national security vulnerabilities in the Request for Proposals (RFP) that DoD Senior Managers must address before the contract is awarded. By addressing issues identified, management will have exercised due diligence in the beginning of the process to ensure potential risks to DoD and Federal information and information systems are minimized.

DoD Directive 7650.3 requires that all recommendations be resolved promptly. DISA comments were partially responsive. DISA agreed to include information assurance and reevaluate the contract ceiling for the RFP; however, DISA stated that coordination with the organizations identified in the report was a significant departure from policy. The DISA revisions to the RFP to address information assurance requirements were not comprehensive and the adequacy of the measures cannot be determined without coordination, the contract ceiling value is still overstated, and the coordination is not a significant departure from policy. Therefore, we request the Director for Procurement and Logistics, Chief, DITCO provide additional comments to Recommendations 1.a., 1.b., and 1.c. by May 22, 2006. Management comments were not responsive to Recommendations 2. and 3. that the coordination was required by the policies identified. As a result of management comments, we revised Recommendations 2. and 3. to have the organizations identified ensure that the Encore II RFP provides for the consistent implementation of information assurance in accordance with DoD Directive 8100.1, "Global Information Grid Overarching Policy," September 19, 2002, and the DoD Information Assurance Strategic Plan. In addition, we added Recommendations 4. and 5. to revise DoD Directive 5143.01, "Under Secretary of Defense for Intelligence," November 23, 2005, and DoD Instruction 8580.1, "Information Assurance in the Defense Acquisition System," July 9, 2004, to include a business process to which the IA Senior Leadership Group agrees to insure IT-related contracts provide consistent implementation of information assurance requirements in accordance with DoD Directive 8100.1 and the DoD Information Assurance Strategic Plan. We

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request the Chairman of the Joint Chiefs of Staff; the Under Secretary of Defense for Acquisition, Technology, and Logistics; the Under Secretary of Defense for Intelligence; the Commander, U.S. Strategic Command; the Assistant Secretary of Defense for Networks and Information Integration/Chief Information Officer; and the Director, National Security Agency comment on the final report recommendations by May 22, 2006.

If possible, send management comments in electronic format (Adobe Acrobat file only) to [AudACM@dodig.mil](mailto:AudACM@dodig.mil). Copies of the management comments must contain the actual signature of the authorizing official. We cannot accept the / Signed / symbol in place of the actual signature. If you arrange to send classified comments electronically, those comments must be sent over the SECRET Internet Protocol Router Network.

**Objective.** The overall objective of the audit was to review the Encore II RFP. Specifically, we determined whether the RFP was consistent with Federal and DoD acquisition policy, to include information assurance (IA) requirements, and assessed whether inconsistencies existed within the RFP.

**Scope and Methodology.** We conducted this audit from January through April 2006 in accordance with generally accepted government auditing standards. To ensure consistency with DoD and Federal IA policies, the Federal Acquisition Regulation (FAR), and the Defense Federal Acquisition Regulations Supplement (DFARS), we reviewed and analyzed the RFP issued December 5, 2005, along with amendments made to the RFP on December 20, 2005, January 4, 2006, January 13, 2006, January 18, 2006, and March 14, 2006. We interviewed personnel from DITCO at Scott Air Force Base, Illinois and the Office of the Assistant Secretary of Defense for Networks and Information Integration/DoD Chief Information Officer regarding development and coordination of the RFP. We coordinated with officials of the Joint Staff; Under Secretary of Defense for Acquisition, Technology, and Logistics; Under Secretary of Defense for Intelligence; National Security Agency; U.S. Strategic Command; and DISA on the issues identified.

**Background.** This audit was initiated because of the significance of the contract and the impact the contract will have on acquisition of information technology (IT) resources within DoD. Encore II is a follow-on acquisition that replaces the Encore I contract, which is approaching the ceiling of \$2.5 billion. The ceiling of the Encore II contract is \$13 billion. Encore II is an Indefinite Delivery/Indefinite Quantity contract and will provide technical solutions in 20 task areas for activities throughout all operating levels of all customer organizations in support of all functional requirements including command and control, intelligence, and mission support areas, and to all elements of the Global Information Grid. All activities within the Military Services and DoD as well as other Federal agencies can place task orders on the contract.

**Results.** We identified material weaknesses with the Encore II RFP in that critical DoD and Federal IA and information security requirements and associated DFARS requirements were omitted. Additionally, we identified other noncompliance issues with FAR requirements. The examples provided in this memorandum are not comprehensive of all the areas that require full management attention to ensure that the Encore II RFP fully complies with Federal and DoD IA requirements, but illustrate the nature of our concerns. Those concerns are:

- use of subcontractors and commercial-off-the-shelf products,
- IA policy within the RFP,
- classified information and facilities security,
- IA throughout the acquisition life cycle,

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- RFP coordination,
  - contractor performance of inherently Governmental functions,
  - contract ceiling value,
  - the amount of time-and-materials task orders, and
  - Government supply sources.

**Information Assurance.** DoD Instruction 8580.1, “Information Assurance in the Defense Acquisition System,” July 9, 2004, defines IA as measures that protect and defend information and information systems by ensuring their availability, integrity, authentication, confidentiality, and non-repudiation to include restoration of information systems by incorporating protection, detection, and reaction capabilities. The Instruction further states that IA must be incorporated in all system and service acquisitions and applies to all acquisitions of automated information systems, outsourced IT-based processes, and platforms or weapon systems with IT interconnections to the Global Information Grid. IA requirements were not incorporated in the RFP. As a result, loopholes exist in which national security information may become at risk. The level of that risk has not been assessed. In addition, other Federal agencies could use this contract for IT services, which may spread increased vulnerabilities across the Federal Government.

**Subcontractors and Commercial-off-the-Shelf Products.** The RFP states that the Government encourages the contractor to continuously review the market place for companies that can provide new and innovative products and professional services with which to subcontract. The RFP also states that the contractor can add and delete subcontractors without written consent of the Government. The DFARS contains limitations for subcontractors. DFARS Part 252.209-7004, “Subcontracting with Firms that are Owned or Controlled by the Government of a Terrorist Country,” states that unless the Government determines that a compelling reason exists, a contractor cannot enter into any subcontract in excess of \$25,000 with a firm, or a subsidiary of a firm that is identified, on the List of Parties Excluded from Federal Procurement and Nonprocurement Programs, as being ineligible for the award of Defense contracts or subcontracts because the subcontractor is owned or controlled by the government of a terrorist country. In addition to being ineligible for award of Defense contracts, the DFARS further states that a contractor must notify the Contracting Officer, in writing, before they can enter into a subcontract with anyone identified as ineligible for the award of Defense contracts or subcontracts because the subcontractor is owned or controlled by the government of a terrorist country. DFARS Part 252.209-7002, “Disclosure of Ownership or Control by a Foreign Government,” elaborates that no contract under a national security program may be awarded to an entity controlled by a foreign government if that entity requires access to proscribed information<sup>1</sup> to perform the contract. If subcontractors can be added to the project without consent from the Government, then the possibility exists that a contractor could subcontract out proscribed information to a company owned or controlled by a foreign government or a company that is ineligible for a Defense contract because it is owned or controlled by the government of a terrorist country. Removing Government oversight creates a loophole that could potentially result in irreversible vulnerabilities and damage to the Global Information Grid and expose Federal and DoD systems to infiltration from malicious users or hackers.

The RFP also may not be in compliance with National Security Telecommunications and Information Systems Security Policy No. 11, “National Policy Governing the Acquisition of

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<sup>1</sup> As defined by DFAR Part 252.209-7002, proscribed information includes top secret information, communications security information, or sensitive compartmented information.

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Information Assurance and IA-Enabled IT Products,” revised June 2003. The objective of the policy is to ensure that IT products that the U.S. Government acquires for use in national security systems perform as advertised by their respective manufacturers, or satisfy the security requirements of the intended user. National Security Telecommunications and Information Systems Security Policy No. 11 directs that acquisitions of IA and IA-enabled IT products that are commercial-off-the-shelf and will be used on systems entering, processing, storing, displaying, or transmitting national security information are limited to those evaluated and validated in accordance with one of the following validation programs: (1) International Common Criteria for Information Security Technology Evaluation Mutual Recognition Arrangement, (2) the National Security Agency/National Institute of Standards and Technology National Information Assurance Partnership, or (3) the National Institute of Standards and Technology Federal Information Processing Standard validation program. Enforcing policies and processes when validating performance claims of IT products is important because enforcement ensures that products are responsive to the security needs of DoD. In addition, use of properly evaluated products contributes toward the security and assurance of an overall system and should be an important factor in IT procurement decisions.

**IA Policy.** The applicable documents section of the RFP lists DoD technical architecture requirements, standards, and guidelines for which the contractor must have a complete understanding. However, the applicable documents section did not include mandatory Federal and DoD IA as well as information security policies. To fully understand contractual obligations, contractors must have a complete understanding of IA policies and requirements.

**Security of Classified Information and Facilities.** Encore II contracting officials stated that task orders issued against the Encore II contract will provide IT resources for both unsecured and secured networks. However, without defined IA requirements in the RFP, security requirements in specific task orders issued could be inconsistent across the networks. For example, the RFP states that in the event maintenance or installation is required in a secured area, contractor personnel will be escorted, and the contractor will not be required to obtain a clearance for the facility and personnel related to performance under individual task orders. DoD IA controls, however, in DoD Instruction 8500.2, “Information Assurance Implementation,” February 6, 2003, include requirements that personnel performing maintenance on classified DoD information systems must be cleared to the highest level of information on that system. In addition, cleared personnel performing maintenance on classified DoD information systems require an escort unless they have authorized access to the computing facility and the DoD information system. By not requiring maintenance personnel to obtain clearances, the secured facility could potentially become a target of malicious attacks—attacks that could result in a breach of national security or unauthorized access to classified and unclassified resources.

**Acquisition Life Cycle.** According to DoD Instruction 8580.1, IA requirements should be included in all phases of the system life cycle. The RFP contains 20 task areas that fall within the scope of the contract. According to the RFP, those task areas provide a comprehensive template for contracting the life-cycle phases of net-centric solutions. However, the RFP did not include IA requirements in the vast majority of the task areas. By not protecting the system against accidental or intentional unauthorized modification, disclosure, destruction, and denial of service throughout the life cycle of systems, vulnerabilities such as misuse and security attacks that potentially pose national security risks are increased. Furthermore, identifying IA requirements early in the acquisition process will ensure that key elements, such as technical security requirements and scheduling, cost, and funding issues associated with

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executing IA requirements, are addressed and will provide a prospective offeror the information needed to decide whether to submit an offer.

**Coordination.** DoD Instruction 8580.1 directs that multiple offices must review for IA before award of a contract that includes acquisition of mission critical or mission essential IT systems. Specifically, the Office of the Assistant Secretary of Defense for Networks and Information Integration/DoD Chief Information Officer and the Under Secretary of Defense for Acquisition, Technology, and Logistics must ensure that IA requirements are considered before contract award. The Chairman of the Joint Chiefs of Staff advises and assesses through the validated and approved Joint Capabilities Integration and Development System documents. The Director of the National Security Agency supports and guides program managers in developing an IA approach. In addition, DoD Directive 5143.01, “Under Secretary of Defense for Intelligence,” November 23, 2005, states that the Under Secretary of Defense for Intelligence is responsible for providing advice and assistance to the Under Secretary of Defense for Acquisition, Technology, and Logistics; the Assistant Secretary of Defense for Networks and Information Integration/DoD Chief Information Officer; and other officials or entities in the U.S. Government concerning acquisition programs that significantly affect Defense intelligence, counterintelligence, and security programs.

The DITCO contracting office coordinated its acquisition strategy for Encore II through the Office of the Assistant Secretary of Defense for Networks and Information Integration/DoD Chief Information Officer and the Under Secretary of Defense for Acquisition, Technology, and Logistics; however, IA requirements were not incorporated into the RFP. IA is a core mission of DISA, and DITCO at Scott Air Force Base is responsible for procurement of commercial IT services and equipment. The DITCO contracting office should have known IA was a requirement for the contract and that IA requirements were not addressed in the RFP. The scope of the Encore II contract includes all activities within the Military Services and DoD such as Command and Control, Intelligence, and all elements of the Global Information Grid. Therefore, the Under Secretary of Defense for Intelligence and the Commander, U.S. Strategic Command should have been requested to review the RFP because subsequent task orders issued from the Encore II contract could have national security implications as to information vulnerabilities. The DITCO contracting office should ensure that the Offices of the Joint Chiefs of Staff; Under Secretary of Defense for Acquisition, Technology, and Logistics; Under Secretary of Defense for Intelligence; Commander, U.S. Strategic Command; Assistant Secretary of Defense for Networks and Information Integration /DoD Chief Information Officer; and Director, National Security Agency review and approve the RFP as adequately addressing IA and national security implications.

**Contracting.** The FAR is the primary regulation Federal Executive agencies use when acquiring supplies and services. Because multiple Federal agencies will use the Encore II contract, a contract with consistent and clearly defined requirements in accordance with the FAR is imperative.

**Inherently Governmental Functions.** FAR Subpart 7.5, “Inherently Governmental Functions,” prescribes policies and procedures that ensure contractors do not perform functions that are inherently governmental. The FAR provides examples of several functions considered as inherently governmental:

- conducting foreign relations and the determination of foreign policy;
- determining agency policy, such as determining the content and application of regulations;

- determining disposal and terms of Government property;
- determining the supplies or services the Government will acquire;
- approving contracts, to include documents that define requirements; and
- awarding and administering contracts.

Task order descriptions in the RFP allow the contractor to perform functions generally considered inherently Governmental functions such as development of policy, defining contract deliverables, and soliciting and managing maintenance contracts. For example, Task Area 1, “Enterprise IT Policy and Planning,” in the Encore II RFP states that the contractor must review, consolidate, and develop domestic, international and coalition policy in accordance with the user’s requirements. The contractor must also assess IT policies, standards, guidelines, or procedures to ensure a balance of security and operational requirements. DITCO contracting officials should ensure that the RFP does not include the unacceptable transfer of inherently Government responsibilities to contractors.

**Contract Ceiling.** The ceiling of the Encore II contract is \$13 billion (subsequently determined to be \$12.2 billion during the review). By using the methodology in the DITCO Independent Government Cost Estimate and the actual cost data from the Encore I contract provided by DITCO contracting officials, the contract ceiling was overvalued. Based on our preliminary estimates, the contract ceiling may be overestimated by at least \$2 billion. See the table for the forecasted expenditures on the Encore II contract based on the actual expenditures from the first 13 quarters of the Encore I contract. DITCO contracting officials should reevaluate the contract ceiling value.

**Predicted Expenditures on the Encore II Contract**

Contract Years	Predicted Expenditures		
	- 3 x Standard Error	Middle	+3 x Standard Error
Base Year 1	\$447,825,437	\$518,340,034	\$588,854,632
Base Year 2	568,432,758	638,947,356	709,461,953
Base Year 3	689,040,080	759,554,677	830,069,275
Base Year 4	809,647,401	880,161,999	950,676,596
Base Year 5	930,254,723	1,000,769,320	1,071,283,918
Option Year 1	1,050,862,044	1,121,376,642	1,191,891,239
Option Year 2	1,171,469,365	1,241,983,963	1,312,498,561
Option Year 3	1,292,076,687	1,362,591,284	1,433,105,882
Option Year 4	1,412,684,008	1,483,198,606	1,553,713,203
Option Year 5	1,533,291,330	1,603,805,927	1,674,320,525
<b>Total</b>	<b>\$9,905,583,833</b>	<b>\$10,610,729,809</b>	<b>\$11,315,875,784</b>

Standard Error = \$23,504,866

**Time-and-Materials Contracting.** FAR Subpart 37.6, “Performance-Based Contracting,” requires the Government contracting officer to choose a contract type that is most likely to motivate contractors to perform at optimal levels. Performance incentives, either positive or negative or both, should be incorporated into the contract to encourage contractors to increase efficiency and maximize performance. FAR Subpart 16.6, “Time-and-Materials, Labor-



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Hour, and Letter Contracts,” states that a time-and-materials contract provides no positive profit incentive to the contractor for cost control or labor efficiency. Because the Encore II RFP allows a significant portion of task orders awarded on the contract to be time-and-materials task orders, contractors will not be motivated to increase efficiency and maximize performance. DITCO contracting officials stated that they were aware that time-and-materials task orders are not preferred. The officials stated that they will attempt to decrease the total number of time-and-materials task orders during the life of the contract by implementing a gradual set of goals. Limitations on time-and-materials task orders are based on a percentage of total dollars awarded in a calendar year. Therefore, DISA will not be able to determine whether they are meeting their established goal for the year until the end of the calendar year. FAR Subpart 16.6 states that appropriate Government surveillance of contractor performance is required to give reasonable assurance efficient methods and effective cost controls are being used. According to the RFP, the customer agency is responsible for monitoring and evaluating the contractor’s performance. DITCO contracting officials should ensure appropriate Government surveillance of contractor performance is in place.

**Government Supply Sources.** The Encore II RFP states that for hardware and software procurements use of the General Services Administration schedule is encouraged but also states in another section that the contractor must use Government supply sources, when available, for purchasing hardware and software. The Federal Supply Schedule Program offers a simplified process of acquiring commercial supplies and services in varying quantities while obtaining volume discounts. The RFP gives the contractor discretion in using Government supply sources that provide discounts to the Government. If the contractor does not use the Government supply sources to take advantage of discounts, it will not be saving costs for the Government.

**Prior Audit Coverage.** The Government Accountability Office issued Report GAO-06-211, “DoD Management Approach and Processes Not Well-Suited to Support Development of the Global Information Grid,” in January 2006. The GAO report states that the DoD management approach for the Global Information Grid does not enforce investment decisions across DoD because although the Office of the Chief Information Officer is responsible for grid development, that office has less influence on investment and program decisions than military Services and Defense agencies. The GAO report recommends that DoD consolidate responsibility, authority, and control over resources necessary to enforce investment decisions and hold organizations accountable for ensuring the objectives of the Global Information Grid are achieved.

**Conclusion.** Protection of the Nation’s critical infrastructure depends on effective information security practices that will minimize vulnerabilities associated with a variety of threats. The Encore II RFP does not provide for adequate IA requirements and Government oversight. In addition, the RFP invites vulnerabilities to national security information. Because of the immediacy and seriousness of the identified weaknesses, the weaknesses must be corrected before the contract is awarded. Improved IA responsibilities, once implemented, will not only help protect and secure information and data but should ensure resilience against information warfare, terrorism, and criminal activities.

## **Management Comments on Results and Audit Response**

**DISA Comments on Information Assurance, Information Assurance Policy within the Request for Proposals, and Acquisition Life Cycle.** The Director, Procurement and

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Logistics, Chief, DITCO stated that the RFP was revised to include IA requirements and that IA was incorporated into Section L of the RFP.

**Audit Response.** The Director for Procurement and Logistics, Chief, DITCO comments were partially responsive. Until key DoD IA personnel review and endorse the RFP, the adequacy of the measures taken cannot be determined. Five of the six members of the DoD IA Senior Leadership Group (IA Senior Leadership Group) identified for coordination in this report did not review the RFP to ensure that IA, IA policy, and acquisition life cycle were adequately incorporated. The IA Senior Leadership Group includes the Chairman of the Joint Chiefs of Staff; Under Secretary of Defense for Acquisition, Technology, and Logistics; Under Secretary of Defense for Intelligence; U.S. Strategic Command; the Assistant Secretary of Defense for Networks and Information Integration/DoD Chief Information Officer; National Security Agency; and DISA organizations. The Assistant Secretary of Defense for Networks and Information Integration/DoD Chief Information Officer reviewed the RFP and developed the IA clauses with DISA for ensuring IA was addressed. The IA Senior Leadership Group is responsible for overseeing implementation of the DoD IA Strategic Plan. The fourth goal of the strategic plan is to influence development of acquisition, planning, and innovation processes that will further the IA mission and support transformation of the force. One of the strategic objectives of the goal is ensure that IA is integrated and sustained throughout the life cycle of DoD programs. Specifically, the objective states that DoD business processes should include IA needs to enable the pervasive and consistent implementation of IA across the enterprise and to conform with the Administration's "smart buy" concept. The Encore II contract with a \$13 billion (subsequently determined to be \$12.2 billion during the review) contract ceiling will significantly define DoD business processes and influence acquisition, planning, and innovation for IT as well as the consistent implementation of IA.

RFP revisions did not fully discuss the following IA policy requirements: Federal Information Security Management Act of 2002 (Title III of E-Gov) December 2002; Federal Information Processing Standard 200, "Minimum Security Requirements for Federal Information and Information Systems," March 2006; Federal Information Processing Standard 201, "Personal Identity Verification of Federal Employees and Contractors;" February 2005; and the National Institute of Standards and Technology Special Publication 800-12, "Introduction to Computer Security," October 1995. The statement of work revision also did not include IA policies in Section 1.4, "Applicable Documents," and Section 1.5 "System Security." The revision to Section 1.5 states that security requirements will be in accordance with the DoD IT Security Certification and Accreditation Process that DoD Manual 8510.1-M establishes. The system security section should not be limited to only those security requirements in DoD Manual 8510.1-M because the manual does not contain all of the DoD system security requirements. These RFP sections should contain IA policies that identify the criteria with which contractors must comply to perform the work.

**DISA Comments on Subcontractors and Commercial-off-the-Shelf Products.** The Director, Procurement and Logistics, Chief, DITCO revised Section H.32 of the RFP to require written Contracting Officer approval for adding and deleting subcontractors. The Director also revised Section I.2 of the RFP to include DFARS 252.209-7004, "Subcontracting with Firms that are Owned or Controlled by the Government of a Terrorist Country," and DFARS 252.209-7002, "Disclosure of Ownership or Control by a Foreign Government," and added the National Security Telecommunications and Information Systems Security Policy No. 11 to the RFP. However, the Director for Procurement and Logistics stated that Architect-Engineering Services will not be acquired under the Encore II contract and therefore, FAR 52.244-4, "Subcontractors

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and Outside Associates and Consultants (Architect-Engineer Services),” was not added to the RFP.

**Audit Response.** The Director for Procurement and Logistics, Chief, DITCO comments were partially responsive. Management actions that DISA took address most of the issues we identified for subcontractors and commercial-off-the-shelf products. However, Amendment No. 10 of the RFP did not update Section I.2 to include DFARS clause 252.209-7002, “Disclosure of Ownership or Control by a Foreign Government.” Without DFARS clause 252.209-7002, contractors may not be aware that this contract under the national security program is not eligible to be awarded to an entity controlled by a foreign government. As a result, DFARS clause 252.209-7002 must be added to the RFP. Based on the scope of the RFP, task orders may require contractor access to classified information. Based on management comments, we removed the reference to FAR 52.244-4, “Subcontractors and Outside Associates and Consultants (Architect-Engineer Services),” from the audit results.

**DISA Comments on Coordination.** The Director, Procurement and Logistics, Chief, DITCO stated that coordination with the organizations identified in the report is a significant departure from policy and not required for proper execution and oversight of acquisition of services. The Director also stated that because the issue is a policy issue, the Assistant Secretary of Defense for Networks and Information Integration/Chief Information Officer must provide a position on the matter in a separate response.

**Audit Response.** The Director for Procurement and Logistics, Chief, DITCO comments were not responsive. Coordination with the organizations identified in the report is not a significant departure from policy because DoD Directive 8100.1 states that major Global Information Grid investment decisions must be in accordance with the Defense Planning Guidance, the Global Information Grid Capstone Requirements Document, and other recognized statements of DoD missions, goals, and outcomes. The Encore II RFP is a \$13 billion (subsequently determined to be \$12.2 billion during the review) indefinite delivery/indefinite quantity contract that will provide technical solutions for activities throughout all operating levels of all customer organizations in support of all functional requirements including command and control, intelligence, and mission support areas, and to all elements of the Global Information Grid. The DoD IA Strategic Plan defines DoD mission, goals, and objectives. The fourth goal of the strategic plan is to influence development of acquisition, planning, and innovation processes that will further the IA mission and support transformation of the force. One of the strategic objectives of the goal is ensure that IA is integrated and sustained throughout the life cycle of DoD programs. Specifically, the objective states that DoD business processes should include IA needs to enable the pervasive and consistent implementation of IA across the enterprise and to conform with the Administration’s “smart buy” concept. The Encore II contract will significantly define business processes for the acquisition, planning, and innovation of IT as well as the consistent implementation of IA. The organizations identified in the report for coordination are part of the IA Senior Leadership Group and are responsible for implementation of the DoD IA Strategic Plan. Therefore, DoD Directive 8100.1 as well as the DoD IA Strategic Plan require this coordination.

**DISA Comments on Inherently Governmental Functions.** The Director, Procurement and Logistics Directorate, Chief, DITCO revised the statement of work within the RFP to ensure that contractors will not be performing inherently governmental functions.

**Audit Response.** The Director for Procurement and Logistics, Chief, DITCO comments were partially responsive. The task area revisions provided in Amendment No. 10 to the RFP

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addressed some but not all inherently governmental functions. Specifically, task area descriptions continue to allow that the contractor determine the disposal terms of Government property, define deliverables, and approve and administer contracts. In addition, DISA officials added the word assist before tasks such as policy development to make them not inherently governmental. However, simply adding the word assist does not guarantee that the contractor will not perform inherently governmental functions. DISA officials must also ensure that task orders do not result in a personal services contract. FAR Subpart 37.104, "Personal Services Contracts," prohibits personal services contracts, which creates an employee-employer relationship in which the contractor is under supervision of the Government employee. The Director, Procurement and Logistics, Chief, DITCO must ensure that the RFP does not include an unacceptable transfer of inherently governmental responsibilities to contractors or personal service contracts and amend the RFP as applicable.

**DISA Comments on Contract Ceiling.** The Director, Procurement and Logistics, Chief, DITCO stated that Acquisition Solutions Research Institute independently reviewed the contract ceiling estimate. According to the Acquisition Solutions Research Institute, the \$13 billion estimate was reasonable. However, officials from the Institute also stated that lowering the ceiling to \$11 billion would not affect competition, the number and type of offerors, or the pricing. Based on this review, the Encore II Team reevaluated the contract ceiling methodology and lowered the contract ceiling to \$12.2 billion.

**Audit Response.** The Director for Procurement and Logistics, Chief, DITCO comments were partially responsive. Although the Director for Procurement and Logistics concurred with the recommendation and lowered the contract ceiling value to \$12.2 billion, we believe the value of the contract ceiling is still overstated. According to the acquisition strategy, the ceiling estimate includes a percentage increase each year that reflects the expected growth rate on the contract. Based on that same percentage growth rate experienced on the Encore I contract in FY 2005, DITCO officials determined that the growth rate for the first year of the contract was 34 percent. However, the acquisition strategy states that in June 2005, \$800 million of task order requirements were placed against the Encore I contract. Because the Encore I contract ceiling was only \$2 billion, 1 month of abnormal data represented 40 percent of the contract ceiling, which distorted the estimated growth rate expected on the Encore II contract. To develop the predicted expenditures, we used the actual Encore I spending data the program office provided. The program office should have provided the same data to Acquisition Solutions Research Institute to estimate a true contract ceiling base. We revised the report to include a table in the Contract Ceiling section of the Results, which illustrates the predicted expenditures of the Encore II contract we developed using actual Encore I spending data.

**DISA Comments on Time-and-Materials Contracting.** The Director, Procurement and Logistics, Chief, DITCO stated that the percentage of time-and-material task orders can be tracked throughout the year. The proposed contract type and estimated award amount of the requirements will be entered into a Microsoft Excel spreadsheet. The Director stated that the Contracting Officer will enter requirements when received and monitor the spreadsheet weekly. If limitations are reached early, the Contracting Officer will take appropriate action. The Director also anticipates that more performance-based task orders will come about under Encore II because requiring activities will have to justify why the task order is not performance based. The Contracting Officer will review and approve that justification. In addition, based on dollar amount, requiring activities will have to obtain approval of nonperformance-based task orders from either the head of the Contracting Office, head of the Contracting Activity, or Senior Procurement Executive.

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**Audit Response.** The Director for Procurement and Logistics, Chief, DITCO comments were partially responsive. We do not believe that the goals identified encourage requiring activities to choose contract types that will motivate contractors to perform at optimal levels FAR Subpart 37.6 requires. As the finding states, limitations placed on the number of time-and-materials task orders were based on a percentage of total dollars awarded in a calendar year, and therefore, DISA cannot determine whether they are meeting their established goal of the year until the end of the calendar year. Using the percentage of the total dollars awarded is not a fixed goal because the dollar amount fluctuates upward as task orders are awarded. The Contracting Officer must establish fixed dollar goals at the beginning of each calendar year. Using a spreadsheet to monitor contract types and award amounts throughout the year does not ensure that limitations will not be reached. Weekly reviews of the spreadsheet would be most effective if the Director for Procurement and Logistics, Chief, DITCO established a fixed dollar goal.

**Under Secretary of Defense for Intelligence Comments on Subcontractors.** Although not required to comment, the Deputy Under Secretary of Defense (Counterintelligence and Security), responding for the Under Secretary of Defense for Intelligence, stated that allowing the contractor to add and delete subcontractors without written consent of the Government does not necessarily lead to the release of classified information to a foreign government-owned contractor. The policies outlined in DoD Manual 5220.22-M, “National Industrial Security Program,” February 28, 2006, require that the prime contractor validate the clearance status of each prospective subcontractor and if the prime contractor is under foreign ownership or control, the prime contractor is advised which procedures need following. In addition, the Deputy Under Secretary of Defense (Counterintelligence and Security) stated that currently, no foreign government owns or controls any cleared company.

**Audit Response.** Although the scope of the RFP includes the potential for classified contracts, the only reference to DoD Manual 5220.22-M is in Section 1.5, “Systems Security.” DoD Manual 5220.22-M contains the requirements, restrictions, and other safeguards necessary for preventing unauthorized disclosure of classified information to contractors. However, the manual is not referenced in other areas of the RFP regarding the use of contractors and classified information. Therefore, prime contractors could be unaware of the DoD Manual 5220.22-M requirements. The Deputy Under Secretary of Defense for Counterintelligence and Security comments reflect the importance of the manual, and a review of the RFP by the Office of the Under Secretary of Defense for Intelligence may have determined that additional references to the policy were needed to ensure that offerors for the contract were aware of their duties and responsibilities. In addition, DoD Manual 5220.22-M relies on contractors to voluntarily provide the required information. Therefore, having Government officials provide comprehensive oversight over contractor and subcontractor actions is imperative.

The RFP further states that the Encore II indefinite delivery/indefinite quantity contract will provide information technical solutions for activities throughout all operating levels (classified and unclassified) of all customer organizations in support of all functional requirements including command and control, intelligence, and mission support areas and to all elements of the Global Information Grid. The Under Secretary of Defense for Intelligence is a member of the IA Senior Leadership Group and a major stakeholder in the Encore II contract. Therefore, the Under Secretary of Defense for Intelligence is responsible for ensuring that the contract also adequately covers IA.

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

**Revised and Added Recommendations.** As a result of management comments, we revised Recommendation 2. to include the U.S. Strategic Command as an addressee and ensure that the Encore II RFP provides consistent implementation of IA in accordance with DoD Directive 8100.1 and the DoD IA Strategic Plan. We also added Recommendation 4., requesting that the Assistant Secretary of Defense for Networks and Information Integration/DoD Chief Information Officer revise DoD Instruction 8580.1 to include a business process to which the IA Senior Leadership Group agrees so IT-related contracts provide consistent implementation of IA in accordance with DoD Directive 8100.1 and the DoD IA Strategic Plan. We also revised Recommendation 3. to request that the Under Secretary of Defense for Intelligence ensure the Encore II RFP provides consistent implementation of IA in accordance with DoD Directive 8100.1 and the DoD IA Strategic Plan as the acquisition assistance required under DoD Instruction 5143.01. Finally, we added Recommendation 5., which requests that the Under Secretary of Defense for Intelligence revise DoD Instruction 5143.01 to include a business process to which the IA Senior Leadership Group agrees so contracts provide consistent implementation of IA in accordance with DoD Directive 8100.1 and the DoD IA Strategic Plan.

### **1. We recommend that the Encore II Contracting Officer, Defense Information Technology Contracting Organization:**

#### **a. Revise the Request for Proposals to include DoD and Federal information assurance requirements and address the contracting issues identified.**

**DISA Comments.** The Director, Procurement and Logistics, Chief, DITCO concurred with the recommendation stating that they revised Section L of the RFP to include IA requirements for evaluation. Additionally, the Task Order Guidelines for Encore II will provide IA policy and procedures for future task orders, and the Contracting Officer and Project Leader included in a revised Acquisition Strategy guidance for IA. The Director stated that they revised the statement of work within the RFP to ensure that contractors did not perform inherently governmental functions.

**Audit Response.** The Director for Procurement and Logistics, Chief, DITCO comments were partially responsive to Recommendation 1.a. RFP revisions did not fully discuss the following IA policy requirements: Federal Information Security Management Act of 2002 (Title III of E-Gov) December 2002; Federal Information Processing Standard 200, “Minimum Security Requirements for Federal Information and Information Systems,” March 2006; Federal Information Processing Standard 201, “Personal Identity Verification of Federal Employees and Contractors;” February 2005; and the National Institute of Standards and Technology Special Publication 800-12, “Introduction to Computer Security,” October 1995. The revised statement of work did not include IA policies in Section 1.4, “Applicable Documents,” and Section 1.5, “System Security.” The revision to Section 1.5 states that security requirements will be in accordance with the DoD IT Security Certification and Accreditation Process that DoD Manual 8510.1-M establishes. The system security section should not be limited to security requirements in DoD Manual 8510.1-M because the manual does not contain all of the security requirements for DoD systems. The cited sections should contain all required DoD IA policies that identify criteria with which the contractor must comply to perform the work. Accordingly, we request that the Director for Procurement and Logistics, Chief, DITCO provide additional comments to the recommendations in response to the final report that provides a plan of action and milestones to correct the RFP.

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The adequacy of management's measures taken cannot be determined until key DoD IA personnel review and endorse the revised RFP. The RFP was not reviewed by five of the six members of the DoD IA Senior Leadership Group identified for coordination in this report to ensure that IA, IA policy, and acquisition life cycle were adequately incorporated. The IA Senior Leadership Group includes the Chairman of the Joint Chiefs of Staff; Under Secretary of Defense for Acquisition, Technology, and Logistics; Under Secretary of Defense for Intelligence; U.S. Strategic Command; the Assistant Secretary of Defense for Networks and Information Integration/DoD Chief Information Officer; National Security Agency; and DISA organizations. The Assistant Secretary of Defense for Networks and Information Integration/DoD Chief Information Officer reviewed the RFP and developed the IA clauses with DISA for ensuring IA was addressed. As stated earlier, the IA Senior Leadership Group oversees implementation of the DoD IA Strategic Plan to include ensuring consistent implementation of IA requirements. Encore II will significantly affect the consistent implementation of IA.

**Chairman of the Joint Chiefs of Staff Comments.** The Chairman of the Joint Chiefs of Staff partially concurred. Although not required to comment, the Vice Director of the Joint Staff responding for the Chairman of the Joint Chiefs of Staff stated that because they had not reviewed the RFP, the Joint Staff could not evaluate the report's conclusions. However, the Vice Director agreed that inclusion of appropriate IA controls into systems and services acquired to support the warfighter is essential.

**Audit Response.** Contracts for systems and services that support the warfighter must have appropriate IA controls. With the breadth and depth of the Encore II contract scope, IT-related systems and services supporting the warfighter will inevitably be procured. Accordingly, we added Recommendations 4. and 5. to the final report, which recommends the Chairman of the Joint Chiefs of Staff in conjunction with the other members of the DoD IA Senior Leadership Group develop a business process that holds the stakeholders in the IA Senior Leadership Group accountable and ensures inclusion of the appropriate IA controls in IT-related contracts in accordance with the DoD IA Strategic Plan.

**b. Postpone the closing date of the Encore II Request for Proposals until Recommendations 2. and 3. are complete.**

**DISA Comments.** The Director, Procurement and Logistics, Chief, DITCO did not concur stating that Recommendations 2. and 3. are a significant departure from policy and not required for the acquisition of services. The Director also stated that because the issue is a policy issue, the Assistant Secretary of Defense for Networks and Information Integration/DoD Chief Information Officer will provide a position on the matter in a separate response.

**Audit Response.** The Director, Procurement and Logistics, Chief, DITCO comments were not responsive to Recommendation 1.b. As stated in our audit response to DISA comments on coordination, coordination with the organizations identified in the report is not a significant departure from current policy. DoD Directive 8100.1 and the DoD IA Strategic Plan require coordination. Accordingly, we request that the Director for Procurement and Logistics, Chief, DITCO provide additional comments to the recommendation in response to the final report that states a plan of action and milestones.

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**c. Reevaluate the contract ceiling value and obtain an independent assessment of the Government estimate.**

**DISA Comments.** The Director, Procurement and Logistics, Chief, DITCO concurred stating that the Acquisition Solutions Research Institute independently reviewed the estimate and revalidated that the original ceiling estimates were within range. The Acquisition Solutions Research Institute stated that the \$13 billion estimate was reasonable; however, they also stated that lowering the ceiling to \$11 billion would not affect competition, the number and type of offerors, or pricing. Based on the independent review, the Director, Procurement and Logistics stated that the Encore II Team reevaluated the contract ceiling methodology and lowered the contract ceiling to \$12.2 billion.

**Audit Response.** The Director, Procurement and Logistics, Chief, DITCO comments did not meet the intent of Recommendation 1.c. Although the Director concurred with the recommendation and lowered the contract ceiling value to \$12.2 billion, the ceiling remains overstated as discussed in our response to DISA comments on the contract ceiling. Accordingly, we request that the Director for Procurement and Logistics, Chief, DITCO reevaluate the contract ceiling without using an obligation/spend factor that will distort the ceiling value and provide additional comments on the recommendation in response to the final report.

**2. We recommend that the Chairman of the Joint Chiefs of Staff; Under Secretary of Defense for Acquisition, Technology, and Logistics; Assistant Secretary of Defense for Networks and Information Integration/DoD Chief Information Officer; Commander, U.S. Strategic Command and Director, National Security Agency ensure that the Encore II Request for Proposals will provide for consistent implementation of IA in accordance with DoD Directive 8100.1, "Global Information Grid Overarching Policy," September 19, 2002, and the DoD IA Strategic Plan.**

**Chairman of the Joint Chiefs of Staff Comments.** In responding for the Chairman of the Joint Chiefs of Staff, the Vice Director of the Joint Staff partially concurred stating that DoD Instruction 8580.1 requires the DoD Chief Information Officer; the Under Secretary of Defense for Acquisition, Technology, and Logistics; and the heads of DoD Components have responsibilities for ensuring that IA requirements are included in contracts but it does not specifically state the Joint Staff has to review individual RFPs.

**Audit Response.** The Vice Director comments were not responsive to Recommendation 2. The organizations cited in the Vice Director's comments as well as the Chairman of the Joint Chiefs of Staff are part of the IA Senior Leadership Group and are responsible for implementation of the DoD IA Strategic Plan as discussed earlier. We agree that the IA Senior Leadership Group cannot evaluate the adequacy of every RFP that is issued for IT-related acquisitions. However, to fulfill its goal of influencing the development of the acquisition, planning, and innovation processes to further the IA mission, the IA Senior Leadership Group should have a business process that will ensure IT-related contracts provide for consistent implementation of IA requirements in accordance with the DoD IA Strategic Plan. The business process should focus on a review of IT-related contracts to ensure that IA requirements are consistent across the enterprise and adequately support the warfighter. Accordingly, we request that the Chairman of the Joint Chiefs of Staff reconsider his position and provide additional comments to the recommendation in response to the final report.

**Under Secretary of Defense for Acquisition, Technology, and Logistics Comments.** In responding for the Under Secretary of Defense for Acquisition, Technology, and Logistics, the



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Acting Director, Defense Procurement and Acquisition Policy partially concurred stating that the Assistant Secretary of Defense for Networks and Information Integration/DoD Chief Information Officer should lead the effort to ensure detailed IA principles and practices are applied to specific task orders under the basic contract. He also stated that the Joint Staff and National Security Agency should ensure that IA practices and principles are considered during the requirements generation process and acquisition strategies discuss appropriate IA activities for review. The Acting Director stated that RFPs, in general, should address appropriate IA guidance. However, the Acting Director stated that because Encore II has a general scope and was an indefinite delivery/indefinite quantity contract, detailed IA principles and practices should be applied to specific task orders.

**Audit Response.** The Acting Director, Defense Procurement and Acquisition Policy comments were not responsive to Recommendation 2. We agree that IA principles and practices should be in all task orders; however, the IA foundation must be established in the acquisition strategy and carried forward through the contracting process, which can only be accomplished through comprehensive oversight during each phase of the process. Waiting until the task orders are created would result in inconsistently applied principles and practices and potential total exclusion of IA requirements in task orders. As stated in our response to the Vice Director of the Joint Staff, the IA Senior Leadership Group should have a business process that will ensure IT-related contracts such as Encore II provide for consistent implementation of IA requirements in accordance with the DoD IA Strategic Plan. Accordingly, we request that the Under Secretary of Defense for Acquisition, Technology, and Logistics reconsider his position and provide comments to the final report.

**Assistant Secretary of Defense for Networks and Information Integration/DoD Chief Information Officer Comments.** The Assistant Secretary of Defense for Networks and Information Integration/DoD Chief Information Officer partially concurred stating that they agreed DoD Instruction 8580.1 and DoD Directive 5143.01, as well as other DoD IA policies and procedures, are important for establishing appropriate IA measures for DoD systems. However, the Assistant Secretary of Defense for Networks and Information Integration/DoD Chief Information Officer stated that consideration of IA principles and practices are part of the requirements definition process and a review of the RFP does not ensure that IA principles are incorporated into system design. Further, the role of the Joint Staff, U.S. Strategic Command, National Security Agency, and Office of the Secretary of Defense does not extend to RFP review because those organizations are chartered to develop policy and review or approve proposed acquisition strategies. Specifically, both the Joint Staff and National Security Agency provide input to the information protection needs and system security definition and design during the requirements definition phase, which would occur under individual task orders issued from the Encore II contract. The Assistant Secretary of Defense for Networks and Information Integration/DoD Chief Information Officer also stated that his office was revising the acquisition strategy review process to ensure critical IA aspects were adequately addressed.

**Audit Response.** Assistant Secretary of Defense for Networks and Information Integration/DoD Chief Information Officer comments were not responsive to Recommendation 2. While Assistant Secretary of Defense for Networks and Information Integration/DoD Chief Information Officer comments addressed policy issues, the organizations identified in this recommendation need to ensure that the Encore II Request for Proposals will provide for consistent implementation of IA in accordance with DoD Directive 8100.1 and the DoD IA Strategic Plan. In addition, the review process in DoD Instruction 8580.1 must be revised to effectively administer IA security requirements for the Global Information Grid. We agree that IA principles are part of the requirements definition process but incorporating IA into systems

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acquisition begins well before system design. The RFP provides the foundation for the contract because it establishes vendor requirements. All elements of the process from the acquisition strategy to each task order must be part of a business process that ensures that IA is included and that the warfighter gets the product to support the mission; anything less is unacceptable.

DoD is increasing its use and administration of indefinite delivery/indefinite quantity contracts with ceiling values between \$9 billion to \$20 billion to provide IT solutions for activities throughout operating levels of customer organizations in support of functional areas that include Command and Control, Intelligence, and Mission support areas, and to elements of the Global Information Grid. DoD Directive 8100.1 states that major Global Information Grid investment decisions must be in accordance with the Defense Planning Guidance, Global Information Grid Capstone Requirements Document, and other recognized statements of DoD missions, goals, and outcomes. DoD Directive 8100.1 applies to these indefinite delivery/indefinite quantity contracts because the contracts are major Global Information Grid investments, and the DoD IA Strategic Plan is a statement of DoD mission, goals, and objectives. Accordingly, the IA Senior Leadership Group, to fulfill its responsibility under the DoD IA Strategic Plan, should establish a business process that holds stakeholders responsible for ensuring the consistent implementation of IA requirements across the enterprise.

The process outlined in DoD Instruction 8580.1 does not provide consistent implementation of IA requirements in indefinite delivery/indefinite quantity contracts. The process does not assure that IA requirements in the acquisition strategy will translate to the RFP, to the contract, and to specific task orders. For example, the Encore II acquisition strategy was reviewed by the Assistant Secretary of Defense for Networks and Information Integration/DoD Chief Information Officer and stated that the contract would support the DoD strategy for IA; however, IA requirements were not included in the Encore II RFP. A review of the RFP would have ensured that the IA requirements laid the necessary foundation and also informed the contractors of what was expected of them. In addition, as illustrated by the Assistant Secretary of Defense for Networks and Information Integration/DoD Chief Information Officer comments, an RFP review will not ensure IA principles are incorporated into system design. Therefore, a revised DoD Instruction 8580.1 must include a business process agreed upon by the IA Senior Leadership Group to ensure that contracts provide for consistent implementation of IA requirements in accordance with DoD Directive 8100.1 and the DoD IA Strategic Plan. The Assistant Secretary of Defense for Networks and Information Integration/DoD Chief Information Officer should be a part of that business process so that the Global Information Grid is not exposed to unmitigated risks and vulnerabilities affecting a risk to national security. Accordingly, we request that the Assistant Secretary of Defense for Networks and Information Integration/DoD Chief Information Officer reconsider his position and provide additional comments in response to the final report.

**3. We recommend that the Under Secretary of Defense for Intelligence, as the acquisition assistance required by DoD Directive 5143.01, “Under Secretary of Defense for Intelligence,” November 23, 2005, ensure that the Encore II Request for Proposals consistently implements IA in accordance with DoD Directive 8100.1, “Global Information Grid Overarching Policy,” September 19, 2002, and the DoD IA Strategic Plan.**

**Under Secretary of Defense for Intelligence Comments.** In responding for the Under Secretary of Defense for Intelligence, the Deputy Under Secretary of Defense (Counterintelligence and Security) did not concur stating that the responsibilities of the Under Secretary of Defense for Intelligence are to provide policy, oversight, advice, and assistance to other senior Government officials concerning acquisition programs that significantly affect the Under Secretary of Defense for Intelligence area of responsibility, not review individual RFPs.

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**Audit Response.** The Deputy Under Secretary of Defense (Counterintelligence and Security) comments were not responsive. We agree that the Under Secretary of Defense for Intelligence should provide policy, oversight, advice, and assistance to other senior Government officials concerning acquisition programs that significantly affect the Under Secretary of Defense for Intelligence's area of responsibility. We also believe that the Under Secretary of Defense for Intelligence should help define a business process that incorporates IA requirements in IT-related contracts affecting the DoD intelligence community. The scope section of the Encore II RFP states that the contractor will provide IT solutions for activities throughout all operating levels of all customer organizations in support of all functional requirements, to include intelligence. With a contract ceiling of \$12.2 billion and intelligence programs included in the scope, the Encore II contract is an acquisition program that could significantly impact the Defense intelligence community.

DoD Directive 5143.01 must be revised so that the acquisition assistance the Under Secretary of Defense for Intelligence provides does include consistent implementation of IA requirements across DoD intelligence programs. DoD use and administration of large indefinite delivery/indefinite quantity contracts is growing. Those contracts will provide IT solutions for activities throughout operating levels of customer organizations in support of functional areas, including Command and Control, Intelligence, and Mission support areas, and to elements of the Global Information Grid. As with the Encore II RFP for an indefinite delivery/indefinite quantity contract, there is no assurance that what is in the acquisition strategy will translate to the RFP, to the contract, and to specific task orders. Therefore, the Under Security of Defense for Intelligence should revise DoD Instruction 5143.01 and include in that revision a business process to which the IA Senior Leadership Group agrees to ensure IT-related contracts provide for consistent implementation of IA requirements in accordance with DoD Directive 8100.1 and the DoD IA Strategic Plan. Accordingly, we request that the Under Secretary of Defense for Intelligence reconsider his position on the recommendation and provide additional comments in response to the final report.

**Chairman of the Joint Chiefs of Staff Comments.** Although not required to comment, the Vice Director of the Joint Staff stated that the Under Secretary of Defense for Intelligence should exercise a role consistent with DoD Directive 5143.01. The Vice Director of the Joint Staff also stated that DISA should invite the U.S. Strategic Command to review the RFP; however, U.S. Strategic Command review and approval should not be a condition of DISA going forward.

**Audit Response.** The U.S. Strategic Command is part of the IA Senior Leadership Group that is responsible for implementation of the DoD IA Strategic Plan. The IA Senior Leadership Group should determine the appropriate role for its members when developing a business process to ensure that IT-related contracts provide consistent implementation of IA requirements in accordance with DoD Directive 8100.1 and the DoD IA Strategic Plan. The Commander, U.S.Strategic Command should be an active member of the business process to provide adequate computer network defense as required by DoD Directive 8500.1, "Information Assurance," October 24, 2002, certified current as of November 21, 2003.

**Assistant Secretary of Defense for Networks and Information Integration/DoD Chief Information Officer Comments.** Although not required to comment, the Assistant Secretary of Defense for Networks and Information Integration/DoD Chief Information Officer agreed that DoD Instruction 8580.1 and DoD Directive 5143.01, as well as other DoD IA policies and procedures, are important to the establishment of appropriate IA measures for DoD systems. However, the Assistant Secretary of Defense for Networks and Information Integration/DoD Chief Information Officer reiterated that consideration of IA principles and practices were part of

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the requirements definition process and a review of the RFP does not ensure that IA principles were incorporated into system design. He also stated that the role of the Joint Staff, U.S. Strategic Command, National Security Agency, and Office of the Secretary of Defense did not include RFP review because those organizations were chartered to develop policy, review proposed acquisition strategies, and monitor the implementation of policy and procedures, as well as the approved strategies. The Assistant Secretary of Defense for Networks and Information Integration/DoD Chief Information Officer stated that the review of contracting documents was a Service, component, and agency responsibility.

**Audit Response.** We agree that IA principles are part of the requirements definition process but incorporating IA into systems acquisition begins well before system design. As discussed in earlier responses, the IA Senior Leadership Group needs to develop a business process that provides for consistent implementation of IA requirements in accordance with DoD Directive 8100.1 and the DoD IA Strategic Plan and determine the appropriate role for its members when developing the business process.

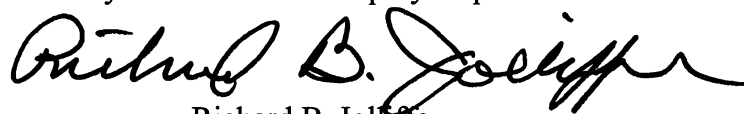
**4. We recommend that the Assistant Secretary of Defense for Networks and Information Integration/DoD Chief Information Officer revise DoD Instruction 8580.1 "Information Assurance in the Defense Acquisition System," July 9, 2004, and include in that revision a business process to which the IA Senior Leadership Group agrees to ensure IT-related contracts provide consistent implementation of IA requirements in accordance with DoD Directive 8100.1, "Global Information Grid Overarching Policy," September 19, 2002 and the DoD IA Strategic Plan.**

**5. We recommend that the Under Secretary of Defense for Intelligence revise DoD Directive 5143.01 "Under Secretary of Defense for Intelligence," November 23, 2005, and include in that revision a business process to which the IA Senior Leadership Group agrees to ensure that IT-related contracts provide consistent implementation of IA requirements in accordance with DoD Directive 8100.1, "Global Information Grid Overarching Policy," September 19, 2002 and the DoD IA Strategic Plan.**

**Management Comments Required.** The Commander, U.S. Strategic Command and the Director, National Security Agency did not comment on a draft of this report. We request that they provide comments to the final report by May 22, 2006.

We appreciate the courtesies extended to the staff. Questions should be directed to [REDACTED] at (703) 604-[REDACTED] (DSN 664-[REDACTED]) or [REDACTED] at (703) 604-[REDACTED] (DSN 664-[REDACTED]). See Appendix A for the report distribution. Team members are listed inside the back cover.

By direction of the Deputy Inspector General for Auditing:



Richard B. Jolliffe  
Assistant Inspector General  
Acquisition and Contract Management

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# **Report Distribution**

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

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Under Secretary of Defense (Comptroller)/Chief Financial Officer

Deputy Chief Financial Officer

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

House Permanent Select Committee on Intelligence

# Chairman of the Joint Chiefs of Staff Comments



**THE JOINT STAFF**  
WASHINGTON, DC

Reply ZIP Code:  
20318-0300


DJSM-0215-06  
03 March 2006

MEMORANDUM FOR THE INSPECTOR GENERAL OF THE DEPARTMENT OF  
DEFENSE

Subject: Draft Report on the Audit of the Defense Information Systems Agency  
(DISA) Encore II Information Technology Solutions Contract (Project  
No. D2006-D000AS-0112.000)

1. Thank you for the opportunity to comment on the subject draft audit  
report.<sup>1</sup> We have provided the enclosed comments for your consideration.

2. The Joint Staff point of contact is (b) (6)  
(b) (6)

  
SCOTT S. CUSTER  
Major General, USAF  
Vice Director Joint Staff

Enclosure

Reference:

1 IG/DOD memorandum, 1 February 2006, "Draft Report on the Audit of  
the Defense Information Systems Agency (DISA) Encore II Information  
Technology Solutions Contract (Project No. D2006-D000AS-0112.000)"

ENCLOSURE

JOINT STAFF COMMENTS TO THE RECOMMENDATIONS ON THE IG, DOD,  
DRAFT REPORT, 1 FEBRUARY 2006, PROJECT NO. D2006-D000AS-0112.000

“AUDIT OF THE DEFENSE INFORMATION SYSTEMS AGENCY (DISA) ENCORE  
II INFORMATION TECHNOLOGY SOLUTIONS CONTRACT”

**Recommendation 1:** “We recommend that the Encore II Contracting Officer,  
Defense Information Technology Contracting Organization:

- a. Revise the Request for Proposals to include DoD and Federal information assurance requirements and address the contracting issues identified.
- b. Postpone the closing date of Encore II Request for Proposals until Recommendations 2 and 3 are complete.
- c. Re-evaluate the contract ceiling value and obtain an independent assessment of the Government estimate.”

**Joint Staff Response:** Partially Concur. As pointed out in the draft report, the Joint Staff has not had an opportunity to review the request for proposal (RFP) and cannot evaluate the report’s conclusions. However, we agree that the inclusion of the appropriate information assurance (IA) controls into systems and services acquired to support the warfighter is essential.

With regard to recommendation 1b, not knowing the scope of any required amendments, we cannot comment on the need to postpone the closing date.

With regard to recommendation 1c, we have no reason to question the government estimate of the contract ceiling; therefore, we have no basis with which to concur in the recommendation.

**Recommendation 2:** “We recommend that the Chairman of the Joint Chiefs of Staff; Under Secretary of Defense for Acquisition, Technology, and Logistics; Assistant Secretary of Defense for Networks and Information Integration/DoD Chief Information Officer; and Director, National Security Agency coordinate, review, and approve the Encore II Request for Proposals to ensure information assurance is appropriately included, as required by DOD Instruction 8580.1, 9 July 2004, ‘Information Assurance in Defense Acquisitions.’”

**Joint Staff Response:** Partially Concur. In accordance with DOD Instruction 8580.1, the DOD CIO, USD(AT&L), the heads of the DOD components, and program managers have certain responsibilities to ensure IA is included in acquisitions. The Chairman’s role is to provide advice and assessment of

Enclosure

revised



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“military capability needs.” There is no requirement in the instruction that the Joint Staff review individual requests for proposal for compliance with policy, and we see no need to make an exception in the case of Encore II.

**Recommendation 3:** “We recommend that the Under Secretary of Defense for Intelligence, as required by DoD Directive 5143.01 ‘Under Secretary of Defense for Intelligence,’ November 23, 2005, and Commander, U.S. Strategic Command coordinate, review, and approve the Encore II Request for Proposals to ensure information assurance and potential national security concerns are appropriately included because of national security implications.”

**Joint Staff Response:** Partially Concur. Concur in recommendation with regard to USD(I) exercising a role consistent with the cited directive. USSTRATCOM has the responsibility of defending the Global Information Grid. Accordingly, we agree that it may be prudent for DISA to invite USSTRATCOM to review the RFP; however, we nonconcur in the recommendation requiring a USSTRATCOM review and approval as a condition of DISA going forward.

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

Final Report  
Reference



ACQUISITION  
TECHNOLOGY  
AND LOGISTICS

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

MAR 06 2006

MEMORANDUM FOR DEPUTY DIRECTOR, AUDITING DIRECTORATE, DoDIG

THROUGH: DIRECTOR, ACQUISITION RESOURCES AND ANALYSIS

SUBJECT: Response to Draft Report on the Audit of the Defense Information Systems Agency (DISA) Encore II Information Technology Solutions Contract (Project No. D2006-D000AS-0112.000)

This is in response to your February 1, 2006, attached memorandum, requesting my action(s) on Recommendation #2 of the subject report.

**DoDIG Recommendation #2:** We recommend that the Chairman of the Joint Chiefs of Staff; Under Secretary of Defense for Acquisition, Technology, and Logistics; Assistant Secretary of Defense for Networks and Information Integration/DoD Chief Information Officer; and Director, National Security Agency coordinate, review, and approve the Encore II Request for Proposals to ensure information assurance is appropriately included, as required by DoD Instruction 8580.1 "Information Assurance in the Defense Acquisition System," July 9, 2004.

**DPAP Comments: Partially Concur.** We agree that the Joint Staff, ASD (NII/DoD CIO), and NSA should ensure that Information Assurance (IA) principles and practices are considered during the requirements generation process and that the strategies presented for review in the acquisition process should discuss appropriate IA activities. In general, we agree that Requests for Proposals (RFP) should address appropriate IA guidance, but in the case of ENCORE II, because of its general scope and indefinite delivery/indefinite quantity nature, specific IA principles and practices should be applied to the specific task orders issued under the basic contract. ASD(NII/DoD CIO) should lead this effort, and OUSD(AT&L)DPAP will provide support as necessary.

Please contact (b) (6) if additional information is required.

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

Attachment:  
As stated



revised

# Under Secretary of Defense For Intelligence Comments

Final Report  
Reference



INTELLIGENCE

OFFICE OF THE UNDER SECRETARY OF DEFENSE  
5000 DEFENSE PENTAGON  
WASHINGTON, DC 20301-5000

MAR 08 2006

## MEMORANDUM FOR PROGRAM DIRECTOR, ACQUISITION AND TECHNOLOGY MANAGEMENT

SUBJECT: Draft Report on the Audit of the Defense Information Systems Agency  
(DISA) Encore II Information Technology Solutions Contract (Project No.  
D2006-D000AS-0112.000)

We have reviewed your memorandum of February 1, 2006, subject as above. It requested comment on subject report. As the responsibility for oversight of the DISA resides with the Office of Assistant Secretary of Defense for Networks and Information Integration (OASD(NII)), we have provided input to OASD(NII) for a consolidated response.

However, we nonconcur with recommendation number 3 that the Under Secretary of Defense for Intelligence (USD(I)) has a requirement in his charter to review the Encore II Request for Proposal (RFP). The USD(I)'s responsibilities are to provide policy and oversight as well as advice and assistance to other senior U.S. Government officials concerning acquisition programs that significantly affect the USD(I)'s area of responsibility, not to review individual RFPs. In addition, the information assurance program is under the purview of ASD(NII), not USD(I).

In addition, your concern, detailed in the paragraph entitled "Subcontractors and Commercial-off-the-Shelf Products", that because a contractor can add and delete subcontractors without written consent of the Government will lead to release of proscribed information to a foreign government-owned contractor is unfounded. The policies of the National Industrial Security Program require the prime contractor to validate the clearance status of any prospective subcontractor. If the subcontractor is under foreign ownership or control, the prime contractor is advised what procedures need to be followed depending on what category of classified information is to be accessed by the subcontractor. In addition, there are currently no cleared companies that are effectively owned or controlled by a foreign government.

We trust this responds to your need for input directly from this office.

Robert W. Rogalski  
Deputy Under Secretary of Defense  
(Counterintelligence and Security)

cc:  
OASD(NII)



revised

# Assistant Secretary of Defense for Networks and Information Integration/Chief Information Officer Comments



ASSISTANT SECRETARY OF DEFENSE  
6000 DEFENSE PENTAGON  
WASHINGTON, DC 20301-6000

March 10, 2006

NETWORKS AND INFORMATION  
INTEGRATION

MEMORANDUM FOR INSPECTOR GENERAL, DEPARTMENT OF DEFENSE

SUBJECT: Response to "Draft Report of the DISA ENCORE II Information Technology Solutions Contract (Project No. D2006-D00AS-0112.000)", dated February 1, 2006

This memorandum responds to subject draft report.

This office appreciates the opportunity to comment on the draft report. This memorandum responds to Recommendations 2 and 3 of your report. Recommendation 1 was made to the ENCORE II Contracting Officer, therefore DISA is responding separately.

This office partially concurs with Recommendations 2 and 3. A primary role of the OASD (NII) is to develop policies and procedures that ensure full consideration of Information Assurance (IA) in all IT requirements. To ensure that the policies and procedures are appropriately addressed in the ENCORE II acquisition, this office has worked with DISA to develop appropriate IA language for the ENCORE II Request for Proposal (RFP) and User's Guide. The recently added RFP language ensures that all firms participating in the ENCORE II acquisition are aware of the importance of building in appropriate IA. More importantly, since ENCORE II is a general support vehicle with specific work defined only in Task Orders, the ENCORE II User's Guide language was revised to require appropriate IA consideration by organizations planning to use the contract. The User's Guide requires Program Manager's to address IA regulation and policies and consider and include appropriate IA as they develop their Task Order Statement of Work. In summary, this office agrees that IA must be considered, but it should occur in the requirements/capabilities definition phase. In the case of ENCORE II, this would occur at the time Task Orders are developed.


This office is also in receipt of your memorandum of March 3, 2006, requesting suspension of the ENCORE II RFP until all DoD IG concerns have been adequately addressed. There appear to be no issues of national security at risk, so this office will allow the RFP to continue. However, because the RFP will not close until April 4, 2006, sufficient time remains for adjudication of any remaining issues on your draft report.



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My point of contact for this response is (b)(6)

  
John G. Grimes

Attachment  
a/s

ASD(NII) Response to Draft DoD IG Report  
***“Draft Report of the DISA ENCORE II  
Information Technology Solutions Contract  
(Project No. D2006-D00AS-0112.000)”***  
dated February 1, 2006

Recommendation 2:

*“We recommend that the Chairman of the Joint Chiefs of Staff; Under Secretary of Defense for Acquisition, Technology, and Logistics; Assistant Secretary of Defense for Networks and Information Integration/DoD Chief Information Officer; and Director, National Security Agency coordinate, review, and approve the Encore II Request for Proposals to ensure information assurance is appropriately included, as required by DoD Instruction 8580.1 “Information Assurance in the Defense Acquisition System,” July 9, 2004.”*

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Recommendation 3:

*“We recommend that the Under Secretary of Defense for Intelligence, as required by DoD Directive 5143.01 “Under Secretary of Defense for Intelligence,” November 23, 2005, and Commander, U.S. Strategic Command coordinate, review, and approve the Encore II Request for Proposals to ensure information assurance and potential national security concerns are appropriately included because of national security implications.”*

Partially Concur with Recommendation 2 and 3:

The role of the Joint Staff, USSTRATCOM, NSA, and OSD does not extend to RFP review. These organizations are chartered to develop policy, and review/approve proposed acquisition strategies. They also monitor implementation of policy and procedures, as well as the approved strategies. Review of contracting documents is a Service/Component/Agency responsibility.

We agree with the IG that the responsibilities and procedures stated in DoD Instruction 8580.1 and DoD Directive 5143.01, as well as other Departmental Information Assurance (IA) policies and procedures, are important to the establishment of appropriate IA measures for the Department’s systems. Adherence to these policies during the execution of Task Orders under the ENCORE II contract is mandatory for all users. DISA has added language in the ENCORE RFP and in the ENCORE User’s Guide to ensure that Task Orders

ATTACHMENT 1  
Page 1 of 2

revised

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ASD(NII) Response to Draft DoD IG Report  
***“Draft Report of the DISA ENCORE II  
Information Technology Solutions Contract  
(Project No. D2006-D00AS-0112.000)”***  
dated February 1, 2006

placed under the ENCORE contract have given full consideration to adequate IA practices and principles

However, we disagree that a Request for Proposal (RFP) should be the focus for determining policy compliance. Consideration of IA principles and practices must be a part of the requirements definition process. The policies cited in the IG’s report clearly point to early introduction of appropriate IA principles through processes/procedures which are completed far in advance of a RFP. For instance, both the Joint Staff and NSA input to the information protection needs and system security definition and design must occur during requirements definition to effectively incorporate IA principles.

In the case of ENCORE II - an ID/IQ contract - review of the RFP will not ensure IA principles are incorporated into system design. The real work under ENCORE II will occur under individual Task Orders. The Task Order Statements of Work or Statements of Objectives define the requirement and the appropriate IA applications. For this reason, the proposed Task Orders must comply with IA policy, and the review for compliance will occur there. Again, DISA is incorporating language in the ENCORE II RFP and User’s Guide stating the importance of IA and the policy against which compliance will be judged before a Task Order is issued.

We appreciate your assistance in pointing out areas of improvement. We are revising our acquisition strategy review process to insure critical IA aspects are adequately addressed. We will communicate lessons learned to the Services/Components/Agencies within DoD to ensure full consideration of IA principles remains an imperative.

ATTACHMENT 1  
Page 2 of 2

# Defense Information Systems Agency Comments



DEFENSE INFORMATION SYSTEMS AGENCY  
P. O. BOX 4502  
ARLINGTON, VIRGINIA 22204-4502

Inspector General (IG)

1 March 2006

MEMORANDUM FOR INSPECTOR GENERAL, DEPARTMENT OF DEFENSE

THROUGH: DISA Inspector General

SUBJECT: Response to Draft Report on the Audit of the Defense Information Systems Agency (DISA) Encore II Information Technology Solutions Contract.  
Project No. D2006-D000AS-0112.000

1. Defense Information Systems Agency, Procurement and Logistics Directorate is providing this letter as a response to request for comments on recommendations on the draft report on the Audit of the Defense Information Systems Agency (DISA) Encore II Information Technology Solutions Contract, dated 1 February 2006.
2. The enclosures identify specific actions we are taking in response to the recommendations contained in the report.

A handwritten signature in cursive script, reading "Evelyn M. DePalma", is positioned above the typed name.

1 Enclosures: a/s

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

\* Omitted Attachments 1, 2, 3, and 5 because of length. Copies will be provided upon request.



**RESPONSE TO ENCORE II DODIG REPORT**  
**1 MAR 06**

Thank you for your review and report on the DISA Encore II Information Technology Solutions Contract. The objective of this contract is to provide global net-centric capabilities, attributes or services under multiple-award, Indefinite-Delivery/Indefinite-Quantity (ID/IQ) task order type contracts that support the military services, the DoD and other Federal agencies. Attachments 1 through 5 contain detailed adjudication of comments for each individual area where changes were made to the Request for Proposal, Task Order Guidelines or Acquisition Strategy. In general terms the following applies to our adjudication of your findings:

**1. We recommend that the Encore II Contracting Officer, Defense Information Technology Contracting Organization:**

**a. Revise the Request for Proposals to include DoD and Federal information assurance requirements and address the contracting issues identified.**

**Concur:** The RFP has been revised to include a contract clause for information assurance requirements. We also revised *Section L - Instructions, Conditions and Notices to Offerors or Respondents* to include information assurance requirements for evaluation. The clause and the Section L language are located at Attachment 1. After the award of the Encore II contract(s), a Task Order Guidelines will be posted via the DITCO Web Site. These guidelines will provide the policy and procedures that future Task Monitors shall use when submitting the requirement for competition under Encore II. Attachment 2 provides the information that will be incorporated into the Task Order Guidelines for Information Assurance. The Contracting Officer and Project Leader have prepared a revision to the Acquisition Strategy that will incorporate guidance pertaining to Information Assurance as shown in Attachment 3. Please see Attachment 4 for a response to each of the contracting issues identified in the Results section of the report. The Statement of Work is provided as Attachment 5, which indicates the revisions that were made to ensure that the contractors do not perform functions that are inherently governmental.

**b. Postpone the closing date of the Encore II Request for Proposals until Recommendations 2 and 3 are complete.**

**Non-Concur:** We believe that recommendations 2 and 3 are a significant departure from current policy and are not required for proper execution and oversight of acquisition of services. Since the change in policy cannot be effected by DISA, we looked to our OSD Principal Staff Assistant, ASD (NII) to provide a position on this matter. We have met with ASD (NII) and their guidance/position, with regard to findings 2 and 3, is included in a separate response.

**c. Re-evaluate the contract ceiling value and obtain an independent assessment of the Government estimate.**

**Concur:** The methodology used to establish the ceiling was initially reviewed by DISA Comptroller and vetted through an OSD/NII led IIPT process. On your request, we secured an independent review (conducted by Acquisition Solutions Research Institute). Their analysis based on the original methodology and escalation rates revalidated that our original ceiling estimates are within range. Please see Attachment 6 for Acquisition Solution's assessment. Additionally, to fully address this concern, the Encore II Team has re-evaluated the methodology used to establish the contract ceiling for Encore II,

revised

RESPONSE TO ENCORE II DODIG REPORT  
1 MAR 06

and calculated our estimate based on a different approach. The second approach, which also used a 20% escalation rate, resulted in a ceiling of 12.2 billion. To avert any further concern, we have chosen the lower of the two numbers. The RFP will indicate this as a ceiling upon being re-released. We are prepared at your convenience to meet and walk you through our approach.

**2. We recommend that the Chairman of the Joint Chiefs of Staff; Under Secretary of Defense for Acquisition, Technology, and Logistics; Assistant Secretary of Defense for Networks and Information Integration/DoD Chief Information Officer; and Director, National Security Agency coordinate, review, and approve the Encore II Request for Proposals to ensure information assurance is appropriately included, as required by DoD Instruction 8580.1 "Information Assurance in the Defense Acquisition System," July 9,2004.**

**3. We recommend that the Under Secretary of Defense for Intelligence, as required by DoD Directive 5143.01 "Under Secretary of Defense for Intelligence," November 23,2005, and Commander, U.S. Strategic Command coordinate, review, and approve the Encore II Request for Proposals to ensure information assurance and potential national security concerns are appropriately included because of national security implications.**

**Please contact us if you have any questions. Our POC is** (b) (6)  
(b) (6)

RESPONSE TO ENCORE II DODIG REPORT  
1 MAR 06

ATTACHMENT 4  
Responses to the Results as listed in the Report

1) **Information Assurance (IA).** IA requirements were incorporated into the RFP in Section H, Paragraph H.45 of the RFP. In addition, Section L was updated for IA content. The text of the clause and Section L are contained in Attachment 1.

2) **Subcontractors and Commercial Off-The-Shelf Products.**

a) **Adding and Deleting Subcontractors Without Written Consent of the Government.** Section H.32 of the RFP has been revised to require the contractor to obtain written Contracting Officer approval before adding or deleting subcontractors from their team. The DoDIG report also referenced several FAR and DFARS Clauses, which we reviewed to determine their applicability to the ENCORE II solicitation. DFARS 252.209-7004 – Subcontracting With Firms That are Owned or Controlled by the Government of a Terrorist Country is already contained in Section I.2 of the RFP. We agree DFARS 252.209-7002 – Disclosure of Ownership or Control by a Foreign Government should be included and have added it to Section I.2 of the RFP. FAR 52.244-4 – Subcontractors and Outside Associates and Consultants (Architect-Engineering Services) - does not appear to be applicable. FAR 44.204(b) states that this clause may be added to contracts for Architect-Engineering Services, since these types of services will not be acquired, FAR 52.244-4 was not added to the RFP.

b) **Commercial Off-The-Shelf (COTS) Products.** National Security Telecommunications and Information Systems Security Policy No. 11 has been added to RFP. Links to the NSTISSP Policy Memo have been incorporated into Section H.45 of the RFP (see Attachment 1).

3) **IA Policy within the RFP.** See response to #1 above.

4) **Security of Classified Information and Facilities.** Section H.4, ESCORT OF MAINTENANCE AND INSTALLATION PERSONNEL, has been deleted in its entirety. All contractor personnel performing under this contract will be required to obtain clearances and comply with the requirements identified in Section H.3 52.204-9201 - SECURITY CLEARANCE and the DD 254 security specifications in the contract and task orders.

5) **Acquisition Life Cycle.** See response to #1 above.

6) **Request for Proposal Coordination.** We believe that recommendations 2 and 3 are a significant departure from current policy and are not required for proper execution and oversight of acquisition of services. Since the change in policy cannot be effected by DISA, we looked to our OSD Principal Staff Assistant, ASD (NII) to provide a position on this matter. We have met with ASD (NII) and their guidance/position, with regard to findings 2 and 3, is included in a separate response.

7) **Contractor Performance of Inherently Governmental Functions.** The Statement of Work has been revised to ensure that the contractors will not be performing inherently Government functions. A

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**RESPONSE TO ENCORE II DODIG REPORT**  
**1 MAR 06**

copy of the revised Statement of Work is provided as Attachment 5. This document has the track changes feature activated to indicate where the revisions were made.

**8) Contract Ceiling Value.** The methodology used to establish the ceiling was initially reviewed by DISA Comptroller and vetted through an OSD/NII led IPT process. On your request the Encore II Team has re-evaluated the methodology used to establish the contract ceiling for Encore II. We confirmed the historical data and predictive factors used to establish the contract ceiling value are valid. We also secured an independent review conducted by Acquisition Solutions Research Institute. Their analysis based on the original methodology and escalation rates has again validated that our original ceiling estimates are within range. Additionally, the Encore II Team has re-evaluated the methodology used to establish the contract ceiling for Encore II. Based on this methodology review and also using 20% as the escalation rate results in a ceiling of 12.2B. The RFP will indicate this as a ceiling upon being re-released.

**9) Time and Materials Contracting.** We believe we can track the percentage of time-and-material task orders throughout the year. Each requirement is tracked from receipt through award. The proposed contract type and estimated award amount of all requirements in process are logged into an excel spreadsheet. This spreadsheet also contains the actual percentage of total dollars by contract type awarded to date. At the time each task order requirement is received, the Contracting Officer logs it into the excel spreadsheet so we can monitor the percentage of time-and-material task orders both awarded and proposed to date. The Contracting Officer will monitor this weekly and take appropriate action if it appears the limitations will be reached early.

We anticipate there will be more performance based task orders under ENCORE II. As part of the information that the requiring activity will submit with their package, documentation shall be provided on whether their requirement can be obtained via performance-based criteria. If the requiring activity indicates that performance-based is not applicable, they will have to provide appropriate justification. The Contracting Officer will review this justification as part of the review of the entire requirements package. If it is determined that the requirement can be obtained via performance based, the Contracting Officer will return the package to the customer and request that they resubmit their package to be obtained via performance based criteria.

Additionally, the following review and approvals will be put into place to reduce the number of time-and-material task orders. In order to execute a non- performance based task order, the Contracting Officer's must obtain approval from the following:

- Up to \$10M - Head of the Contracting Office (HCO)
- \$10M-\$50M – Head of the Contracting Activity (HCA)
- Over \$50M – Senior Procurement Executive (SPE)

The Contracting Officer will all track the amount of Time and Material orders placed by External Agencies. For any lifecycle expected to exceed \$10,000,000, approval shall be obtained from the DITCO Contracting Officer before the External Agency can start processing the requirement.

**RESPONSE TO ENCORE II DODIG REPORT**  
**1 MAR 06**

10) **Government Supply Sources.** We believe the RFP is consistent and in accordance with the FAR. Task Areas 18 and 19 of the SOW encourage the contractor to use GSA schedules as a source of supply in accordance with FAR 51.1. FAR 51.101 (a) and (b) states:

(a) If it is in the Government's interest, and if supplies or services required in the performance of a Government contract are available from Government supply sources, contracting officers may authorize contractors to use these sources in performing—

(1) Government cost-reimbursement contracts;

(2) Other types of negotiated contracts when the agency determines that a substantial dollar portion of the contractor's contracts are of a Government cost-reimbursement nature; or

(3) A contract under the Javits-Wagner-O'Day Act (41 U.S.C. 46, *et seq.*) if:

(i) The nonprofit agency requesting use of the supplies and services is providing a commodity or service to the Federal Government, and

(ii) The supplies or services received are directly used in making or providing a commodity or service, approved by the Committee for Purchase From People Who Are Blind or Severely Disabled, to the Federal Government (see Subpart 8.7).

(b) Contractors with fixed-price Government contracts that require protection of security classified information may acquire security equipment through GSA sources (see 41 CFR 101-26.507).

Section I contains both FAR 52.251-1 and DFARS 252-251-7000, which will allow the contracting Officer to authorize the contractor to use GSA schedules in accordance with FAR 51.101.



**Date:** February 22, 2006

**Date Requested:** February 21, 2006

**Client:** DISA

**Date Due:** February 22, 2006

**To:** Evelyn DePalma

**Purpose:** This is a research response under the Acquisition Solutions Research Institute's subscription service, which provides for up to a four-hour-level-of-effort research response to an acquisition-related inquiry.

**Client Question:** Please review the recent Department of Defense inspector general (DoD IG) finding regarding the ENCORE II indefinite-delivery, indefinite-quantity (IDIQ) ceiling. The IG questioned the ceiling amount of \$13 billion, recommending \$11 billion. Specifically:

**Contract Ceiling.** The ceiling of the Encore II contract is \$13 billion. By using the methodology in the Independent Government Cost Estimate and the actual cost data from the Encore I contract provided by DITCO contracting officials, the contract ceiling appears overvalued. Based on our preliminary estimations, the contract ceiling may be overestimated by at least \$2 billion. DITCO contracting officials should re-evaluate the contract ceiling value.

**Acquisition Solutions' Response:**

Regarding indefinite-delivery, indefinite-quantity (IDIQ) contracts, Federal Acquisition Regulation (FAR) 16.504(a)(1) and (2) state:

(1) The contract must require the Government to order and the contractor to furnish at least a stated minimum quantity of supplies or services. In addition, if ordered, the contractor must furnish any additional quantities, not to exceed the stated maximum. The contracting officer should establish a reasonable maximum quantity based on market research, trends on recent contracts for similar supplies or services, survey of potential users, or any other rational basis.

(2) To ensure that the contract is binding, the minimum quantity must be more than a nominal quantity, but it should not exceed the amount that the Government is fairly certain to order.

Our analysis of the worksheets and supporting data finds that the ceiling estimate of \$13 billion is reasonable. Labor rates were based on actuals from the ENCORE contract. A 3.5 percent escalation was applied to the labor rates, which is well within the norm. Growth rates were

Attachment 6

adjusted downward from historical, from 46 percent to 20 percent. We believe this is a conservative adjustment, as our analysis shows continued growth for IDIQ contracts.

We note that the inspector general (IG) did not identify which assumptions it questioned, and it is therefore difficult for us to comment on the factual basis of its finding.

The net result of the IG finding would be a 15 percent reduction in ceiling, from \$13 billion to \$11 billion. This reduction would not materially affect the competition. The number and type of offerors would not be expected to change, nor would the government anticipate seeing better pricing. Discounts would be "maxed out" long before either estimate.

**Conclusion:**

Reducing the ceiling amount will be a problem only if the ceiling is approached sooner than anticipated, requiring that the ENCORE III competition be conducted at a point earlier than the potential contract term. As the task of determining IDIQ ceilings is not an exact science, we believe your estimate is reasonable and supportable.

**Submitted by:**

(b) (6)

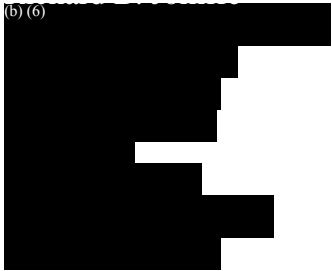
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The information and opinions in this document are based on professional research of available information using sources deemed reliable. If your question involves legal issues, you may wish to consult an attorney for legal advice based on your particular situation.

## Team Members

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

(b) (6)

A large black rectangular redaction covers the names and titles of the team members. The text "(b) (6)" is visible in the top-left corner of the redacted area.