



CUI

INSPECTOR GENERAL

U.S. Department of Defense

MARCH 2, 2022



(U) Evaluation of Department of Defense Components' Use of the National Industrial Security Program Contract Classification System

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INTEGRITY ★ INDEPENDENCE ★ EXCELLENCE

CUI

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May 24, 2024"





Results in Brief

(U) Evaluation of Department of Defense Components' Use of the National Industrial Security Program Contract Classification System

March 2, 2022

(U) Objective

(U) We determined whether the DoD Components are using the National Industrial Security Program Contract Classification System (NCCS) in accordance with the requirements of the Office of the Under Secretary of Defense for Intelligence and Security (OUSD[I&S]) memorandum "Use of the National Industrial Security Program Contract Classification System," issued on February 8, 2018.

(U) Background

(U) The DD Form 254, "DoD Contract Security Classification Specifications," is used by the DoD Components for all contracts requiring access to classified information. The DD Form 254 provides cleared defense contractors with the security requirements and security classification guidance needed to perform the contract, including specific clearance and access requirements, authorization to generate classified information, and classified storage requirements.¹

(U) The NCCS is a web-based platform that automates the DD Form 254 process for the DoD Components, cleared defense contractors, and non-Defense agencies in the National Industrial Security Program. The NCCS establishes a centralized database for creating and routing the DD Form 254. The NCCS is also intended to improve the DoD's security oversight because the NCCS automates the collection of security

(U) Background (cont'd)

(U) requirements and supporting data for classified contracts and enables real-time monitoring of the DD Form 254. Federal Acquisition Regulation (FAR) subpart 4.4 requires the DoD Components, cleared defense contractors, and non-Defense agencies to use the DD Form 254 for contracts requiring access to classified information.²

(U) In FY 2015, the OUSD(I&S) submitted a change to FAR subpart 4.4 to require the use of the NCCS to process the DD Form 254. On February 8, 2018, the OUSD(I&S) memorandum mandated that all DoD Components and cleared defense contractors begin using the NCCS to automate the DD Form 254 process by September 14, 2018, except for organizations that establish a connection between their existing legacy system and the NCCS. The memorandum designated the Defense Counterintelligence and Security Agency (DCSA) as the lead agency for establishing an NCCS implementation plan in coordination with the DoD Components.³ On August 3, 2020, FAR subpart 4.4 was updated to require the DoD Components to use the NCCS to process the DD Form 254. Following the FAR update, the OUSD(I&S) issued a memorandum, "Notice of Amendment to Federal Acquisition Regulation to Use the National Industrial Security Program Contract Classification System," September 2, 2020, notifying DoD Components of the FAR update, reaffirming the requirement to use the NCCS, and authorizing the use of alternate systems to process a classified DD Form 254.

(U) Finding

~~(CUI)~~ The DoD Components did not consistently use the NCCS to process the DD Form 254s, as required by the OUSD(I&S) February 8, 2018, memorandum. We reviewed whether 18 DoD Components used the NCCS to process the DD Form 254 from September 2018 to January 2020.

- ~~(CUI)~~ We determined that 10 of the 18 DoD Components either did not use, or did not consistently use, the NCCS:

¹ (U) A cleared defense contractor is a private entity granted clearance by the DoD to access, receive, or store classified information for the purpose of bidding for a contract or conducting activities to support a DoD program.

² (U) FAR Part 4, "Administrative and Information Matters," Subpart 4.4, "Safeguarding Classified Information Within Industry," Section 4.402, "General."

³ (U) On June 20, 2019, the Defense Security Service was renamed the Defense Counterintelligence and Security Agency.



Results in Brief

(U) Evaluation of Department of Defense Components' Use of the National Industrial Security Program Contract Classification System

(U) Finding (cont'd)

- ~~(CUI)~~ 9 of the 18 DoD Components did not use the NCCS at all to process their DD Form 254s; and
- ~~(CUI)~~ 1 of the 18 DoD Components did not consistently use the NCCS to process its DD Form 254s.

~~(CUI)~~ We determined that 4 of the 18 did not use the NCCS because they had no requirement to do so. In addition, we determined that 4 of the 18 DoD Components did use the NCCS to process their DD Form 254s.

~~(CUI)~~ Inconsistent use of the NCCS occurred because the DCSA NCCS program manager did not coordinate with the DoD Components' industrial security managers (ISM) to establish implementation plans, as required by the OUSD(I&S) February 8, 2018, memorandum.

~~(CUI)~~ As a result of the DoD Components' inconsistent use of the NCCS, the DoD Components' ISMs and cleared defense contractors risk unauthorized disclosure of classified information, technologies, and materials. Specifically, the DoD Components' ISMs and cleared defense contractors may not receive correct security classification guidance for classified information authorized under the contract when not using the NCCS centralized database. The security classification guidance is necessary for the DoD Components' ISMs and cleared defense contractors to safeguard classified information during the performance of the contract.

(U) Recommendations

(U) We recommend that the Director of the Critical Technology Protection Directorate, OUSD(I&S), update DoD Manual 5220.32, Volume 1, "National Industrial Security Program: Industrial Security Procedures for Government Activities," effective December 10, 2021, to reflect FAR subpart 4.4, requiring the use of the NCCS to process the DD Form 254.⁴

(U) We also recommend that the DCSA NCCS program manager coordinate with the DoD Components to develop and finalize an implementation plan in accordance with the OUSD(I&S) February 8, 2018, memorandum and FAR subpart 4.4.

(U) Management Actions Taken

(U) During the evaluation, we informed the OUSD(I&S) Industrial Security Policy Chief and the DCSA NCCS program manager of our finding and recommendations. The OUSD(I&S) Industrial Security Policy Chief and the DCSA NCCS program manager agreed with our finding and immediately initiated corrective actions.

(U) Specifically, the OUSD(I&S) Industrial Security Policy Chief stated that the OUSD(I&S) will update DoD Manual 5220.32, Volume 1, in 2022 to require the DoD Components to use the NCCS to complete the DD Form 254. The planned action is sufficient to resolve the recommendation to update DoD Manual 5220.32, Volume 1. We will close this recommendation when we verify that the OUSD(I&S) has published an updated DoD Manual 5220.32, Volume 1, to require the use of the NCCS to process the DD Form 254.

(U) The DCSA NCCS program manager stated that she has been coordinating with the DoD Components to develop an NCCS implementation plan. These plans and actions are sufficient to resolve the recommendation. We will close this recommendation when we verify that the DCSA NCCS program manager has completed and published the NCCS implementation plan.

(U) Please see the Recommendations Table on the next page for the status of recommendations.

⁴ (U) DoD Manual 5220.22, Volume 2, was updated to DoD Manual 5220.32, Volume 1, on December 10, 2021.

(U) Recommendations Table

(U) Management	Recommendations Unresolved	Recommendations Resolved	Recommendations Closed
Director, Critical Technology Protection Directorate, Office of the Under Secretary of Defense for Intelligence and Security	None	2	None
National Industrial Security Program Contract Classification System Program Manager, Defense Counterintelligence and Security Agency	None	1	None (U)

(U) Note: The following categories are used to describe agency management's comments to individual recommendations.

- **(U) Unresolved** – Management has not agreed to implement the recommendation or has not proposed actions that will address the recommendation.
- **(U) Resolved** – Management agreed to implement the recommendation or has proposed actions that will address the underlying finding that generated the recommendation.
- **(U) Closed** – DoD OIG verified that the agreed upon corrective actions were implemented.





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

March 2, 2022

MEMORANDUM FOR UNDER SECRETARY OF DEFENSE FOR INTELLIGENCE
AND SECURITY
NATIONAL INDUSTRIAL SECURITY PROGRAM CONTRACT
CLASSIFICATION SYSTEM PROGRAM MANAGER, DEFENSE
COUNTERINTELLIGENCE AND SECURITY AGENCY

SUBJECT: (U) Evaluation of the National Industrial Security Program Contract Classification System (Report No. DODIG-2022-068)

(U) This final report provides the results of the DoD Office of Inspector General's evaluation.

(U) Officials from the Office of the Under Secretary of Defense for Intelligence and Security and the Defense Counterintelligence and Security Agency agreed to address all the recommendations presented in the report; therefore, we consider the recommendations resolved and open. As described in the Recommendations section of this report, we will close the recommendations when you provide us documentation showing that all agreed-upon actions to implement the recommendations are completed. Therefore, please provide us within 90 days your response concerning specific actions in process or completed on the recommendations. Send your response to followup@dodig.mil.

(U) If you have any questions, please contact DOD OIG (b)(6) at DOD OIG (b)(6) (DOD OIG (b)(6)) or DOD OIG (b)(6) at DOD OIG (b)(6) (DOD OIG (b)(6)). We appreciate the cooperation and assistance received during the evaluation.

A handwritten signature in black ink, appearing to read "Randolph R. Stone", is positioned above the printed name.

Randolph R. Stone
Assistant Inspector General for Evaluations
Space, Intelligence, Engineering, and Oversight

(U) Contents

(U) Introduction

(U) Objective	1
(U) Background	1

(U) Finding. The DoD Components Did Not Consistently Use the NCCS to Process and Submit DoD Contract Security Specifications, DD Form 254..... 6

(U) The DoD Components Did Not Consistently Use the NCCS to Process DD Form 254s	7
(U) The DCSA NCCS Program Manager Did Not Coordinate With the DoD Components to Develop and Finalize Implementation Plans for the DoD Components to Begin Using the NCCS to the Process DD Form 254.....	13
(U) The DoD Components Are at Risk of Unauthorized Disclosure of Classified Information, Technologies, and Materials	15
(U) Recommendations	15

(U) Appendix

(U) Scope and Methodology	17
(U) Use of Computer-Processed Data	19
(U) Use of Technical Assistance	19
(U) Prior Coverage	20

(U) Acronyms and Abbreviations..... 21

(U) Introduction

(U) Objective

(U) We determined whether the DoD Components are using the National Industrial Security Program (NISP) Contract Classification System (NCCS) in accordance with the requirements from the Office of the Under Secretary of Defense for Intelligence and Security (OUSD[I&S]) memorandum “Use of the National Industrial Security Program Contract Classification System,” issued on February 8, 2018.

(U) Background

(U) DoD Contract Security Classification Specification, DD Form 254

(U) DoD Components use the DD Form 254, “DoD Contract Security Classification Specification,” for all contracts requiring access to classified information. The DD Form 254 provides cleared defense contractors with the security requirements and security classification guidance needed to perform the contract, including specific clearance and access requirements, authorization to generate classified information, and classified storage requirements. The DoD Components’ industrial security managers (ISM) complete the DD Form 254.⁵

(U) National Industrial Security Program Contract Classification System

(U) The NCCS is a web-based platform that automates the DD Form 254 process for DoD Components, cleared defense contractors, and non-Defense agencies in the NISP. The NCCS establishes a centralized database for creating and routing the DD Form 254. The OUSD(I&S) February 8, 2018, memorandum and Federal Acquisition Regulation (FAR) subpart 4.4 require the DoD Components, cleared defense contractors, and non-Defense agencies in the NISP to use the NCCS to assist the processing and distribution of the DD Form 254 for contracts requiring access to classified information.⁶

⁵ (U) The position titles of DoD Component personnel responsible for processing the DD Form 254 varied at each DoD Component, including the ISM, director of security, security officer, information security chief, agency security officer, chief industrial security, and the senior program analyst. In this report, we refer to these positions collectively as the ISMs.

⁶ (U) Presidential Executive Order 12829, “National Industrial Security Program,” January 7, 1993, established the NISP to protect classified information that is released to cleared defense contractors, licensees, and grantees of the U.S. Government. The NISP applies to all Executive branch departments and agencies and cleared defense contractors within the United States and its territories. The Defense Counterintelligence and Security Agency administers the NISP on behalf of the DoD and 33 non-Defense agencies.

(U) The NCCS improves the DoD's security oversight because the NCCS automates the collection of security requirements and supporting data for classified contracts and enables real-time monitoring of DD Form 254 submissions, reviews, approvals, and changes. Before the development of the NCCS, DoD Component ISMs completed the DD Form 254 using either paper or PDF. The ISMs would then fax, e-mail, or hand-carry the DD Form 254 to the cleared defense contractor, the DoD Component, and the Defense Counterintelligence and Security Agency (DCSA).

(U) Three Office of the Secretary of Defense Memorandums Require the DoD Components to Use the NCCS When Completing the DD Form 254

(U) Three memorandums from Office of the Secretary of Defense components require the DoD Components and cleared defense contractors to use the NCCS to process the DD Form 254. Specifically, the OUSD(I&S) issued two memorandums, the first on February 8, 2018, and the second on September 2, 2020. The Office of the Under Secretary of Defense for Acquisition and Sustainment (OUSD[A&S]) issued one memorandum on October 19, 2018.

(U) Office of the Under Secretary of Defense for Intelligence and Security 2018 Memorandum

(U) The OUSD(I&S) February 8, 2018, memorandum requires the DoD Components and cleared defense contractors to begin using the NCCS to process the DD Form 254 by September 14, 2018, unless a DoD Component has established a connection between its existing legacy system and the NCCS. The memorandum stated that the DCSA is the lead for the implementation of the NCCS and will establish an implementation plan in coordination with the DoD Components.

(U) Office of the Under Secretary of Defense for Acquisition and Sustainment 2018 Memorandum

(U) The OUSD(A&S) memorandum, "Use of the National Industrial Security Program Contract Classification System," October 19, 2018, requires the DoD Components to use the NCCS to process the DD Form 254 to the maximum extent practicable, instead of using paper forms. The memorandum also stated that FAR subpart 4.4 would require the use of the NCCS to process the DD Form 254.

(U) Office of the Under Secretary of Defense for Intelligence and Security 2020 Memorandum

(U) The OUSD(I&S) memorandum “Notice of Amendment to Federal Acquisition Regulation to Use the National Security Program Contract Classification System,” September 2, 2020, reaffirms the requirement in the OUSD(I&S)’s February 8, 2018, memorandum for the DoD Components to use the NCCS to process the DD Form 254.

(U) The memorandum also authorizes the DoD Components to use alternate systems to process classified DD Form 254s. Additionally, the memorandum states that the DCSA remained the lead for NCCS implementation. The memorandum also states that the FAR subpart 4.4 update requiring the DoD Components to use the NCCS to process the DD Form 254 became effective on August 3, 2020.

(U) Roles and Responsibilities of National Industrial Security Program Contract Classification System Stakeholders

(U) Multiple DoD organizations, including the OUSD(I&S), DCSA, and the DoD Components, are responsible for NCCS implementation. The stakeholders’ responsibilities include developing policy guidance; using the NCCS to process the DD Form 254; and developing, managing, and disseminating requirements for NCCS users.

(U) Office of the Under Secretary of Defense for Intelligence and Security

(U) DoD Directive 5143.01 assigns the OUSD(I&S) the responsibility to oversee policy and management of the NISP, develop industrial security policy and guidance, and oversee DoD implementation of the DoD Industrial Security Program.⁷ The OUSD(I&S) also develops and makes approved changes to DoD Manual (DoDM) 5220.32, Volume 1.⁸

(U) Defense Counterintelligence and Security Agency

(U) DoD Instruction (DoDI) 5220.22 assigns the DCSA the responsibility to administer the NISP and oversee cleared defense contractors.⁹ The DCSA is responsible for providing guidance to cleared defense contractors to ensure that they protect their facilities, personnel, and automated information systems from attacks and vulnerabilities. The DCSA is also responsible for ensuring

⁷ (U) DoD Directive 5143.01, “Under Secretary of Defense for Intelligence and Security,” April 6, 2020.

⁸ (U) DoD Manual 5220.32, Volume 1, “National Industrial Security Program: Industrial Security Procedures for Government Activities,” December 10, 2021.

⁹ (U) DoD Instruction 5220.22, “National Industrial Security Program,” December 10, 2021. On June 20, 2019, the Defense Security Service was renamed the Defense Counterintelligence and Security Agency.

(U) that cleared defense contractors protect classified information they are provided, as well as critical technology the contractors develop. Additionally, the OUSD(I&S) February 8, 2018, memorandum established the DCSA as the lead for NCCS implementation. Specifically, the DCSA is responsible for developing and managing the NCCS.

(U) DoD Components

(U) DoDI 5220.22 assigns the DoD Component heads the responsibility for overseeing access to classified information to comply with the NISP. The DoD Components consist of the Military Departments, Defense agencies, DoD field activities, and organizations within the Office of the Secretary of Defense that are authorized to award or administer grants, cooperative agreements, or other non-procurement transactions.¹⁰ DoDI 5220.22 also assigns the DCSA the responsibility of determining whether to grant access to classified information to cleared defense contractors. When a DoD Component determines that a cleared defense contractor needs access to classified information, the DoD Component is required to provide security classification guidance to the contractor and complete the DD Form 254, in accordance with DoDM 5220.32, Volume 1.

(U) The DCSA NCCS program manager identified 51 DoD Components that should use the NCCS to process the DD Form 254. Our evaluation focused on 18 of the 51 DoD Components. Specifically, we reviewed 3 Military Services, 12 DoD agencies, and 3 DoD intelligence agencies. See Appendix A for a listing of the 18 DoD Components we reviewed.

(U) DoD Policy and Federal Regulations for Safeguarding Classified Information

(U) The DoD Components are required to follow DoD policy and Federal acquisition regulations when safeguarding classified information. DoDM 5220.32, Volume 1, provides policy requirements mandated by statute, the President, and the Secretary of Defense to oversee actions conducted by the DoD Components. The FAR provides uniform policies and procedures for acquisition and supports implementation of the requirements into contracts.

¹⁰ (U) DoD Directive 5100.01, "Functions of the Department of Defense and Its Major Components," September 17, 2020, defines the "DoD Components."

(U) DoD Instruction 5220.22 and DoD Manual 5220.32, Volume 1, National Industrial Security Program

(U) DoDI 5220.22 implements policy, establishes requirements, and assigns responsibilities for the protection of classified information. Specifically, it provides guidance and requirements for safeguarding classified information provided to or developed by cleared defense contractors. DoDM 5220.32, Volume 1, provides guidance that follows Executive Order 12829 requirements for implementation of the NISP. The NISP is designed to ensure that cleared defense contractors safeguard information in their possession while performing work on contracts, programs, budgets, and research and development efforts. DoDM 5220.32, Volume 1, specifies that industrial security procedures and practices apply to U.S. Government activities. DoDM 5220.32, Volume 1, requires the DoD Components to complete the DD Form 254 for contracts and solicitations requiring access to classified information. The DoD Components and cleared defense contractors are required to submit a DD Form 254 to the DCSA. However, DoDM 5220.32, Volume 1, does not require the use of the NCCS to process the DD Form 254.

(U) Federal Acquisition Regulation Subpart 4.4, Safeguarding Classified Information Within Industry

(U) The FAR is the primary regulation for use by all Executive branch agencies in their acquisition of supplies and services with appropriated funds. FAR subpart 4.4 requires the DoD Components to use the DD Form 254 for cleared defense contractors requiring access to classified information. In 2015, the OUSD(I&S) submitted a change to FAR subpart 4.4 to require the use of the NCCS to process the DD Form 254. The FAR subpart 4.4 update was intended to streamline the submission process for existing DD Form 254s and enable cleared defense contractors to submit electronic forms instead of paper versions. On August 3, 2020, FAR subpart 4.4 was updated to require the DoD Components to use the NCCS to process the DD Form 254.

(U) Finding

~~(CUI)~~ The DoD Components Did Not Consistently Use the NCCS to Process and Submit DoD Contract Security Specifications, DD Form 254

~~(CUI)~~ The DoD Components did not consistently use the NCCS to process DD Form 254s, as required by the OUSD(I&S) February 8, 2018, memorandum. The OUSD(I&S) memorandum required the DoD Components to begin using the NCCS to process DD Form 254s. We reviewed whether a sample of 18 DoD Components used the NCCS to process DD Form 254s from September 2018 to January 2020. We determined that 10 of the 18 DoD components we reviewed either did not use, or did not consistently use, the NCCS:

- ~~(CUI)~~ 9 of the 18 DoD Components did not use the NCCS at all to process their DD Form 254s; and
- ~~(CUI)~~ 1 of the 18 DoD Components did not consistently use the NCCS to process its DD Form 254s.

~~(CUI)~~ We determined that 4 of the 18 DoD Components did not use the NCCS because they had no requirement to do so. In addition, we determined that 4 of the 18 DoD Components did use the NCCS, as required, to process their DD Form 254s.

~~(CUI)~~ OSD/JS (b)(5), (b)(7)(E)



¹¹ (U) Due to personnel turnover, the DCSA had three different NCCS program managers assigned from FY 2017 through FY 2021. The first program manager was assigned from the end of FY 2017 through the end of FY 2020, the second program manager from the end of FY 2020 until the beginning of FY 2021, and the third program manager from the beginning of FY 2021 through present.

(U) On September 23, 2021, the current DCSA NCCS program manager told us that the NCCS would be temporarily shut down on October 1, 2021, to correct deficiencies in the system.¹² During the temporary shutdown, the DoD Components will complete the DD Form 254 by PDF. The current DCSA NCCS program manager stated that she expects the NCCS to be fully functional by the second quarter of FY 2022.

(~~CUI~~) As a result of the DoD Components' inconsistent use of the NCCS, the DoD Components' ISMs and contractors risk the unauthorized disclosure of classified information, technologies, and materials. Specifically, the DoD Components' ISMs and cleared defense contractors may not receive correct security classification guidance about the level and specific types of classified information authorized under the contract when not using the NCCS centralized database. The security classification guidance is necessary for ISMs to receive and generate the proper level of classified information during the performance of the contract. Further, the DoD Components' ISMs and cleared defense contractors are not managing the processing and distribution of all DD Form 254s, in accordance with the OUSD(I&S) February 8, 2018, memorandum and FAR subpart 4.4, because they do not use the NCCS.

(~~CUI~~) The DoD Components Did Not Consistently Use the NCCS to Process DD Form 254s

(~~CUI~~) The DoD Components did not consistently use the NCCS to process DD Form 254s, as required by the OUSD(I&S) February 8, 2018, memorandum. We reviewed whether a sample of 18 DoD Components used the NCCS to process DD Form 254s from September 2018 to January 2020. We determined that 10 of the 18 DoD Components we reviewed either did not use, or did not consistently use, the NCCS:

- (~~CUI~~) 9 of the 18 DoD Components did not use the NCCS at all to process their DD Form 254s, and
- (~~CUI~~) 1 of the 18 DoD Components did not consistently use the NCCS to process its DD Form 254s.

(~~CUI~~) We determined that 4 of the 18 did not use the NCCS because they had no requirement to do so. In addition, we determined that 4 of the 18 DoD Components did use the NCCS, as required, to process their DD Form 254s.

¹² (U) The decision to shutdown the NCCS occurred after the completion of our fieldwork.

~~(CUI)~~ *Nine DoD Components Did Not Use the NCCS at All to Process DD Form 254s*

~~(CUI)~~ The following DoD Components and agencies did not use the NCCS to process their DD Form 254s, as required by the OUSD(I&S) February 8, 2018, memorandum.

- ~~(CUI)~~ [redacted] OSD/JS (b)(5), (b)(7)(E)
- ~~(CUI)~~ [redacted]
- ~~(CUI)~~ [redacted] OSD/JS (b)(5), (b)(7)(E)
- ~~(CUI)~~ [redacted] OSD/JS (b)(5), (b)(7)(E)
- ~~(CUI)~~ [redacted] OSD/JS (b)(5), (b)(7)(E)
- ~~(CUI)~~ [redacted] OSD/JS (b)(5), (b)(7)(E)
- ~~(CUI)~~ [redacted] OSD/JS
- ~~(CUI)~~ [redacted] OSD/JS (b)(5), (b)(7)(E)
- ~~(CUI)~~ [redacted] OSD/JS

~~(CUI)~~ [redacted] OSD/JS (b)(5), (b)(7)(E)

~~(CUI)~~ [redacted] OSD/JS (b)(5), (b)(7)(E)

~~(CUI)~~ [redacted] OSD/JS (b)(5), (b)(7)(E)

~~(CUI)~~ [redacted] OSD/JS (b)(5), (b)(7)(E)

¹³ (U) [redacted] OSD/JS (b)(5), (b)(7)(E)

¹⁴ (U) The DoDAAC is a six-character code that uniquely identifies a unit, activity, or organization that has the authority to requisition, contract for, receive, have custody of, issue, or ship Government-owned assets, or fund and pay bills for materials and services. The DoD Components are required to register their DoDAAC with the NCCS to establish NCCS user accounts.

(CUI) [redacted] OSD/JS (b)(5), (b)(7)(E)
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~~(CUI)~~ [redacted] OSD/JS (b)(5), (b)(7)(E) [redacted]
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(U) Four DoD Components Were Not Required to Use the NCCS to Process the DD Form 254

(CUI) [REDACTED] OSD/JS (b)(5), (b)(7)(E)
[REDACTED]
[REDACTED]

¹⁵ (U) [REDACTED] OSD/JS (b)(5), (b)(7)(E)
[REDACTED]

¹⁶ (U) [REDACTED] OSD/JS (b)(5), (b)(7)(E)
[REDACTED]

¹⁷ (U) We reviewed the DoD Components that were required to use the NCCS to process DD Form 254s from September 2018 to January 2020.

(CUI) [REDACTED] OSD/JS (b)(5), (b)(7)(E)

(U) In addition, [REDACTED] OSD/JS (b)(5), (b)(7)(E)

[REDACTED] ISMs were not required to use the NCCS to process the DD Form 254. DoDM 5220.32, Volume 1, requires that the DoD Components complete a DD Form 254 for contracts and solicitations requiring access to classified information. The [REDACTED] [REDACTED] ISMs told us that they did not use the NCCS to process the DD Form 254 because they did not have any classified contracts at the time of our review.

(CUI) Four DoD Components Used the NCCS to Process DD Form 254s

(CUI) [REDACTED] OSD/JS (b)(5), (b)(7)(E)

(U) The OUSD(I&S) Intended to Give the DoD Components Time to Prepare Prior to the FAR Update Requiring the Use of the NCCS to Process the DD Form 254

(U) The OUSD(I&S) Chief of Industrial Security stated that the OUSD(I&S) February 8, 2018, memorandum was intended to give the DoD Components time to develop internal policies and procedures and start using the NCCS prior to the FAR subpart 4.4 update requiring the use of the NCCS to process the DD Form 254.

(U) In 2015, the OUSD(I&S) submitted a change to FAR subpart 4.4 to require the DoD Components to use the NCCS to process the DD Form 254. While the FAR was under review, the OUSD(I&S) issued the February 8, 2018, memorandum. The DCSA NCCS program manager from FY 2017 through FY 2020 stated that the DoD Components were not using the NCCS to process DD Form 254s prior to the

¹⁸ (U) The [REDACTED] ISM uses PeopleSoft and the [REDACTED] ISM uses the Contract Management System to process DD Form 254s.

(U) issuance of the OUSD(I&S) February 8, 2018, memorandum because there was no DoD policy or DoD Component internal policy requiring the use of the NCCS. Specifically, DoD Manual 5220.32, Volume 1, and FAR subpart 4.4 required a PDF of the DD Form 254 when a contract requires access to classified information, instead of processing the DD Form 254 within the NCCS. FAR subpart 4.4 was updated on August 3, 2020, to require the DoD Components to use the NCCS to process the DD Form 254; however, DoD Manual 5220.32, Volume 1, has not been updated to reflect the changes made to FAR subpart 4.4.

(U) The DCSA NCCS Program Manager Did Not Coordinate With the DoD Components to Develop and Finalize Implementation Plans for the DoD Components to Begin Using the NCCS to Process DD Form 254

(~~CUI~~) Inconsistent use of the NCCS occurred because the DCSA NCCS program manager who held the position from FY 2017 through FY 2020 did not coordinate with the DoD Components' ISMs to establish implementation plans, as required by the OUSD(I&S) February 8, 2018, memorandum. OSD/JS (b)(5), (b)(7)(E)

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

(U) The OUSD(I&S) February 8, 2018, memorandum required the DCSA to coordinate with the DoD Components to establish an NCCS implementation plan. We interviewed 18 DoD Component ISMs to determine whether the DCSA NCCS program manager coordinated with them to develop an implementation plan. All 18 DoD Component ISMs told us that they provided a point of contact to the DCSA. However, the DCSA NCCS program manager from FY 2017 through FY 2020 did not coordinate with them to establish implementation plans. The DCSA NCCS program manager from FY 2017 through FY 2020 told us that he determined that an implementation plan would not be effective because he did not understand the DoD Component requirements necessary to implement the NCCS to process DD Form 254s, such as the DoD Component roles and individuals responsible for preparing, reviewing, and certifying the DD Form 254.

(~~CUI~~) OSD/JS (b)(5), (b)(7)(E)

[REDACTED]

[REDACTED]

As a result, the DoD Components did not consistently use the NCCS to process DD Form 254s,

(~~CUH~~) as required by the February 8, 2018 memorandum. For example, as discussed earlier in this report, ~~OSD/JS (b)(5), (b)(7)(E)~~ told us that he did not implement the NCCS because it was newly operational and the NCCS caused disruptions when processing DD Form 254s. However, coordination between the DCSA NCCS program manager and the ~~OSD/JS (b)(5), (b)(7)(E)~~ to understand the requirements and potential disruptions may have enabled the ~~OSD/JS (b)(5), (b)(7)(E)~~ to use the NCCS once when the component became operational.

(U) In September 2021, the current DCSA NCCS program manager told us that the DCSA was drafting a new implementation plan. The DCSA NCCS program manager expects to release the new implementation plan in the second quarter of FY 2022.

(U) The DCSA Program Executive Officer Temporarily Shut Down the NCCS to Correct Deficiencies in the NCCS

(U) On September 23, 2021, the current DCSA NCCS program manager told us that the NCCS would be temporarily shut down on October 1, 2021, to correct deficiencies in the system. The DCSA instructed the DoD Components to complete the DD Form 254 in PDF during the NCCS shutdown. The current DCSA NCCS program manager told us that she is identifying the DoD Components' points of contact to coordinate training and testing of the updated NCCS. The current DCSA NCCS program manager stated that she expects the NCCS to be fully functional by the second quarter of FY 2022.

(U) The current DCSA NCCS program manager also stated that in February 2021, she conducted a review and identified deficiencies within the NCCS. The DCSA reviewed compliance with FAR subpart 4.4, NCCS user feedback, internal management reviews, and the status of help desk tickets. The DCSA review determined the following:

- (U) a significant drop in the DoD Components' use of the NCCS to process DD Form 254s;
- (U) poor DoD Component satisfaction survey responses;
- (U) a lack of DoD Component user communication, and a lack of understanding of DoD Component user needs and requirements; and
- (U) a significant backlog of NCCS help desk tickets.

(U) As a result of the DCSA findings, on September 30, 2021, the DCSA Program Executive Officer issued a memorandum to temporarily shut down the NCCS to correct the deficiencies. The current DCSA NCCS program manager stated that she expects upgrades to the NCCS to be completed by the second quarter of FY 2022 and all the DoD Components to be using the NCCS by August 2022.

(~~CUI~~) The DoD Components Are at Risk of Unauthorized Disclosure of Classified Information, Technologies, and Materials

(~~CUI~~) As a result of the DoD Components' inconsistent use of the NCCS, the DoD Components' ISMs and contractors risk the unauthorized disclosure of classified information, technologies, and materials. Specifically, the DoD Components' ISMs and cleared defense contractors may not receive correct security classification guidance about the level and specific types of classified information authorized under the contract when not using the NCCS centralized database. The security classification guidance is necessary to receive and generate the proper level of classified information during the performance of the contract. Further, the DoD Components' ISMs and cleared defense contractors are not managing the processing and distribution of all DD Form 254s in accordance with the OUSD(I&S) February 8, 2018, memorandum and FAR subpart 4.4.

(U) Recommendations

(U) Recommendation 1

(U) We recommend that the Director of the Critical Technology Protection Directorate, Office of the Under Secretary of Defense for Intelligence and Security, update DoD Manual 5220.32, Volume 1, "National Industrial Security Program: Industrial Security Procedures for Government Activities," effective August 1, 2018, to reflect Federal Acquisition Regulation Subpart 4.4, "Safeguarding Classified Information Within Industry," requiring the use of the National Industrial Security Program Contract Classification System.

(U) Management Actions Taken

(U) During the evaluation, the OUSD(I&S) Industrial Security Policy Chief agreed with the recommendation and initiated corrective actions. On May 14, 2021, OUSD(I&S) officials stated that they will update DoDM 5220.32, Volume 1, in 2022 to reflect FAR subpart 4.4. The planned action is sufficient to resolve Recommendation 1. We will close the recommendation when we verify that the OUSD(I&S) has published an updated DoD 5220.32, Volume 1, to reflect the FAR subpart 4.4 requirement to use the NCCS to process the DD Form 254.

(U) Recommendation 2

(U) We recommend that the program manager of the Defense Counterintelligence and Security Agency National Industrial Security Program Contract Classification System coordinate with the DoD Components to develop and finalize an implementation plan in accordance with the Office of the Under Secretary of Defense for Intelligence and Security memorandum “Use of the National Industrial Security Program Contract Classification System,” February 8, 2018, and to use the National Industrial Security Program Contract Classification System in accordance with Federal Acquisition Regulation Subpart 4.4, “Safeguarding Classified Information Within Industry.”

(U) Management Actions Taken

(U) During the evaluation, the DCSA NCCS program manager agreed with the recommendation and initiated corrective actions. On September 23, 2021, the DCSA NCCS program manager stated that the NCCS program office has begun coordinating with the DoD Components to develop an NCCS implementation plan. The plan should include the requirements of the DoD Components needed to implement the NCCS. In addition, the DCSA NCCS program manager stated that the NCCS program office had begun working to identify the DoD Component points of contact and re-engage the DoD Components to use the NCCS. The actions are sufficient to resolve Recommendation 2. We will close the recommendation when we verify that the DCSA NCCS program manager has completed and published the NCCS implementation plan.

(U) Appendix

(U) Scope and Methodology

(U) We conducted this evaluation from February 2020 through February 2022 in accordance with the “Quality Standards for Inspection and Evaluation,” published in January 2012 by the Council of the Inspectors General on Integrity and Efficiency. Those standards require that we adequately plan the evaluation to ensure that objectives are met and that we perform the evaluation to obtain sufficient, competent, and relevant evidence to support the findings, conclusions, and recommendations. We believe that the evidence obtained was sufficient, competent, and relevant to lead a reasonable person to sustain the findings, conclusions, and recommendations.

(U) Due to COVID-19 travel restrictions, we did not physically visit any of the DoD Components identified in this report. We used teleconferences, interviews, and data calls to collect testimonial and documentary evidence to verify information.

(U) DoD Component Selection

(U) To accomplish the objective of this evaluation, we obtained a list of the 51 DoD Components that should be using the National Industrial Security Program Contract Classification System (NCCS) from the Defense Counterintelligence and Security Agency (DCSA) NCCS program manager who held that position from FY 2017 through FY 2020. The DoD OIG Quantitative Methods Division performed a statistical analysis of the 51 DoD Components to identify a sample of 17 Components to review. We included the [REDACTED] OSD/JS (b)(5), (b)(7)(E) as part of our evaluation, bringing the total to 18 DoD Components that we reviewed during the evaluation. To maintain our independence, the DoD OIG was not included in the sample universe. We reviewed the following 18 DoD Components.

1. (CUI) [REDACTED] OSD/JS (b)(5), (b)(7)(E)
2. (CUI) [REDACTED] OSD/JS (b)(5), (b)(7)(E)
3. (CUI) [REDACTED] OSD/JS (b)(5), (b)(7)(E)
4. (CUI) [REDACTED] OSD/JS (b)(5), (b)(7)(E)
5. (CUI) [REDACTED] OSD/JS (b)(5), (b)(7)(E)
6. (CUI) [REDACTED] OSD/JS (b)(5), (b)(7)(E)
7. (CUI) [REDACTED] OSD/JS (b)(5), (b)(7)(E)
8. (CUI) [REDACTED] OSD/JS (b)(5), (b)(7)(E)

9. (CUI) OSD/JS (b)(5), (b)(7)(E)
10. (CUI)
11. (CUI)
12. (CUI)
13. (CUI)
14. (CUI)
15. (CUI)
16. (CUI)
17. (CUI)
18. (CUI)

(U) We conducted teleconferences and interviews with the Office of the Under Secretary of Defense for Intelligence and Security (OUSD[I&S]) Associate Director of Industrial Security, the Office of the Under Secretary of Defense for Acquisition and Sustainment (OUSD[A&S]) contract specialist, DCSA NCCS program managers, and DCSA policy officers to gain an understanding of the NCCS. We conducted interviews with the 18 DoD Component industrial security managers to determine whether the DoD Components are using the NCCS in accordance with the OUSD(I&S) February 8, 2018, memorandum.

(U) Data Collection

(U) To determine whether the DoD Components used the NCCS in accordance with the requirements from the OUSD(I&S) February 8, 2018, memorandum, we collected testimonial and documentary evidence from the OUSD(I&S), the DCSA, and the 18 DoD Components. Specifically, we collected and reviewed the following documents.

- (U) The DoD Components' DD Form 254s from the NCCS from September 17, 2020, through November 5, 2020
- (U) DoD Manual 5220.32, Volume 1, "National Industrial Security Program," to understand the DoD's DD Form 254 process and requirements for the use of the NCCS
- (U) DoD Instruction 5220.22, "National Industrial Security Program," to understand the responsibilities of DoD Components
- (U) DoD Directive 5143.01, "Under Secretary of Defense for Intelligence and Security," to understand the OUSD(I&S)'s responsibilities

- (U) Federal Acquisition Regulation Part 4, “Administrative and Information Matters,” Subpart 4.4, “Safeguarding Classified Information Within Industry,” Section 4.402, “General,” to understand the Federal requirement for the DD Form 254 process and requirements for the use of the NCCS
- (U) The DoD Components’ industrial security program standard operating procedures, to identify the current process of developing the DD Form 254
- (U) OUSD memorandums, to understand the requirement for implementing the use of the NCCS:
 - (U) OUSD(I&S) memorandum “Use of National Industrial Security Program Contract Classification System,” February 8, 2018
 - (U) OUSD(A&S) memorandum “Use of the National Industrial Security Program,” October 19, 2018
 - (U) OUSD(I&S) memorandum “Notice of Amendment to Federal Acquisition Regulation (FAR) to Use the National Industrial Security Program Contract Classification System,” September 2, 2020
- (U) A listing of classified contracts from the 18 DoD Components
- (U) Air Force Class Deviation 2021-U0001 Contract Policy Memo 21-C-01, “Class Deviation – DD254 processed and approved in NISP Contract Classification System (NCCS) module via the Procurement Integrated Enterprise Environment (PIEE),” March 3, 2021

(U) Use of Computer-Processed Data

(U) We used computer-processed data to perform this evaluation. We relied on contract data provided by the DoD Components. We also relied on data obtained by the DCSA NCCS program manager from FY 2020 through FY 2021, who queried the NCCS based on the DoD Components’ contract information to obtain the DD Form 254s from the NCCS. We relied on the DD Form 254s from the DCSA to determine whether the DoD Components used the NCCS and the DD Form 254s were completed. We determined that the computer-processed data were sufficiently reliable for the purpose of this evaluation.

(U) Use of Technical Assistance

(U) We were provided assistance during the evaluation by members of the DoD OIG Quantitative Methods Division. The Quantitative Methods Division provided a random statistical sample of 17 of the 51 DoD Components.

(U) Prior Coverage

(U) No prior coverage has been conducted on the National Industrial Security Program Contract Classification System during the last 5 years.

(U) Acronyms and Abbreviations

OSD/JS (b)(5), (b)(7)(E)

DoDAAC DoD Activity Address Code

DoDM DoD Manual

FAR Federal Acquisition Regulation

ISM Industrial Security Manager (lowercase in text)

NCCS National Industrial Security Program Contract Classification System

NISP National Industrial Security Program

OSD/JS (b)(5), (b)(7)(E)

OUSD(I&S) Office of the Under Secretary of Defense for Intelligence and Security

OSD/JS (b)(5), (b)(7)(E)

OSD/JS (b)(5), (b)(7)(E)



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