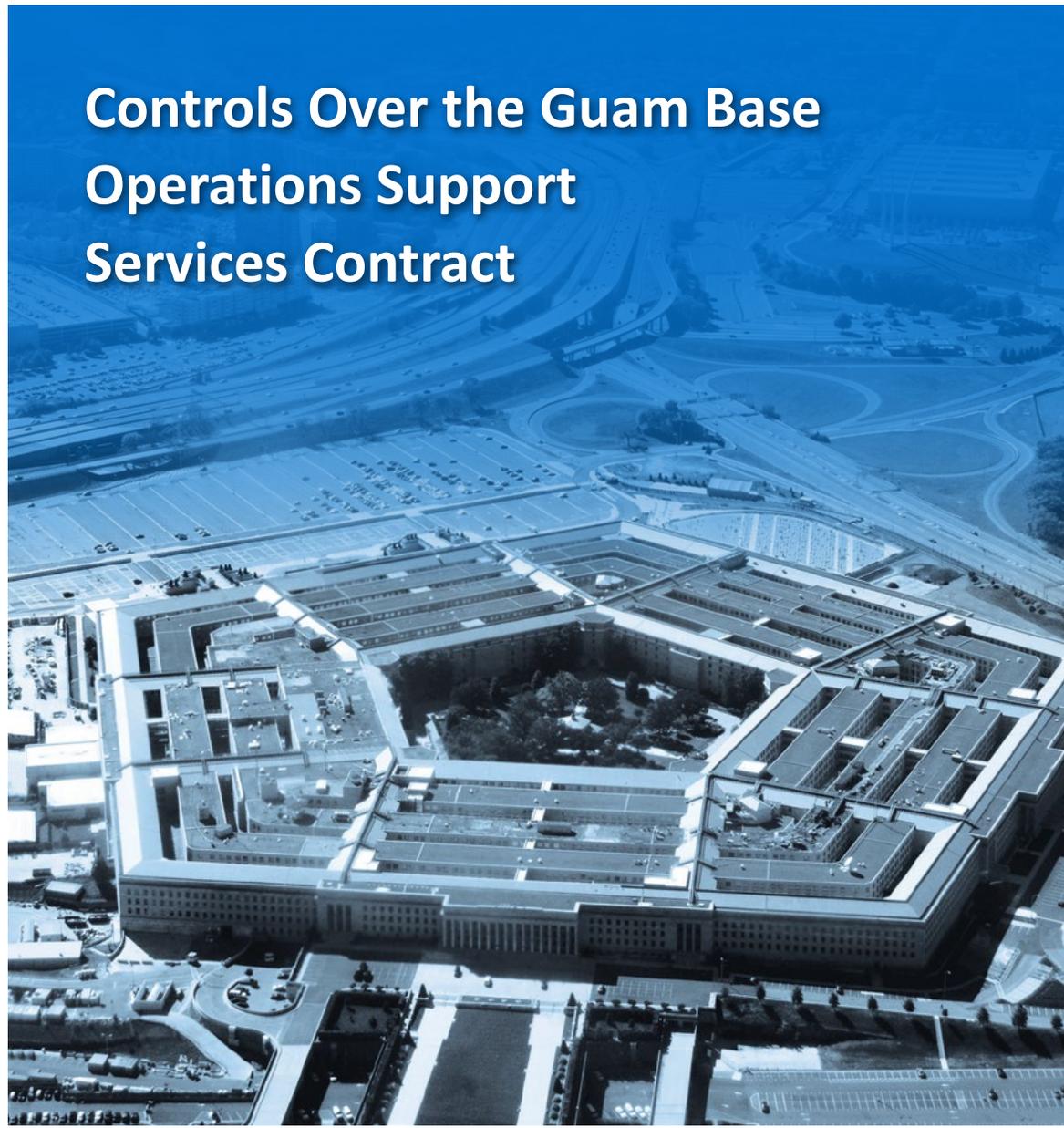




# INSPECTOR GENERAL

*U.S. Department of Defense*

APRIL 16, 2018



## Controls Over the Guam Base Operations Support Services Contract

INTEGRITY ★ EFFICIENCY ★ ACCOUNTABILITY ★ EXCELLENCE

INTEGRITY ★ EFFICIENCY ★ ACCOUNTABILITY ★ EXCELLENCE

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# Results in Brief

## *Controls Over the Guam Base Operations Support Services Contract*

April 16, 2018

### Objective

We determined whether the Naval Facilities Engineering Command (NAVFAC) Pacific adequately monitored contractor performance and conducted sufficient invoice reviews for goods and services provided under the Base Operations Support Services (BOSS) contract in Guam.

### Background

NAVFAC Pacific provides acquisition services to the Pacific area of responsibility through subordinate commands, including Naval Facilities Engineering Command Marianas (NAVFACMAR) in Guam. According to NAVFACMAR, NAVFAC Pacific is the procuring authority—soliciting and awarding BOSS contracts for naval operations in the region. Also, according to NAVFACMAR, NAVFACMAR is the administrative authority—presiding over the daily contract operations while providing contractor oversight for NAVFAC contracts in Guam.

### Finding

NAVFACMAR adequately monitored contractor performance and conducted sufficient invoice reviews for goods and services provided under the Guam BOSS contract from April 1, 2016, through March 31, 2017. Specifically, NAVFACMAR:

- developed complete and measurable functional assessment plans and used them to assess contractor performance;
- completed specific and detailed performance assessments;

### Finding (cont'd)

- worked with contractor personnel to address performance concerns at the operations level; and
- collected and reviewed required invoice supporting documentation to verify that contractor-submitted charges were appropriate before invoices were paid.<sup>1</sup>

NAVFACMAR adequately monitored contractor performance and conducted sufficient invoice reviews because it took corrective actions in response to recommendations made in a 2013 Naval Audit Service report. Specifically, NAVFACMAR updated and implemented policies and procedures related to contractor performance assessments and invoice reviews, and established controls and provided training on appropriate contractor performance and cost oversight.

The corrective actions NAVFACMAR took in response to the recommendations improved contractor oversight and ensured that the contractor was performing in accordance with the Guam BOSS contract terms and conditions and that the contractor was paid correctly. NAVFAC has awarded multiple BOSS contracts around the world that are managed by other NAVFAC regions. Those contracts could benefit from the robust oversight structure NAVFACMAR has implemented in Guam.

### Recommendation

We recommend that the Commander, NAVFAC, Headquarters compile lessons learned from NAVFACMAR's contract oversight procedures and apply those lessons learned to ongoing and future Base Operations Support Services contracts in all NAVFAC regions.

<sup>1</sup> A functional assessment plan is a document used by the Government to assess the contractor's work against measurable performance standards at a specific annex.



# Results in Brief

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## *Controls Over the Guam Base Operations Support Services Contract*

### **Management Comments and Our Response**

The Inspector General, NAVFAC, commenting for the Commander, NAVFAC, Headquarters agreed, stating that NAVFAC Headquarters is working with NAVFAC Pacific and NAVFACMAR to identify lessons learned that will be applied to continue process improvement for all NAVFAC-administered Facilities Support contracts and BOSS contracts.

Comments from the Inspector General addressed all specifics of the recommendation, and therefore, the recommendation is resolved. We will close the recommendation when we verify that NAVFAC Headquarters has reviewed NAVFACMAR's contract oversight procedures to identify lessons learned that will be applied to ongoing and future BOSS contracts.

## Recommendations Table

Management	Recommendations Unresolved	Recommendations Resolved	Recommendations Closed
Commander, Naval Facilities Engineering Command, Headquarters	None	Yes	None

Note: the following categories are used to describe agency management’s comments to individual recommendations.

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





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

April 16, 2018

MEMORANDUM FOR COMMANDER, NAVAL FACILITIES ENGINEERING  
COMMAND, HEADQUARTERS  
COMMANDER, NAVAL FACILITIES ENGINEERING COMMAND, MARIANAS

SUBJECT: Controls Over the Guam Base Operations Support Services  
Contract (Report No. DODIG-2018-106)

We are providing this report for your information and use. We conducted this audit in accordance with generally accepted government auditing standards.

We considered management comments on a draft of this report when preparing the final report. Comments from the Inspector General, Naval Facilities Engineering Command, commenting on behalf of the Commander, Naval Facilities Engineering Command, Headquarters, addressed the recommendation and conformed to the requirements of DoD Instruction 7650.03; therefore, the recommendation is resolved. We do not require additional comments.

We appreciate the courtesies, cooperation, and assistance received by the staff during the audit. Please direct questions to me at (703) 604-9331 (DSN 664-9331).

A handwritten signature in cursive script, reading "Carol N. Gorman", is positioned above the typed name.

Carol N. Gorman  
Assistant Inspector General  
Cyberspace Operations

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# Introduction

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## Objective

Our audit objective was to determine whether the Naval Facilities Engineering Command (NAVFAC) Pacific adequately monitored contractor performance and conducted sufficient invoice reviews for goods and services provided under the Guam Base Operations Support Services (BOSS) contract. See Appendix A for our scope and methodology and prior coverage related to the audit.

## Background

NAVFAC Pacific provides acquisition services to the Pacific area of responsibility through subordinate commands, including Naval Facilities Engineering Command Marianas (NAVFACMAR) in Guam. According to NAVFACMAR, NAVFAC Pacific is the procuring authority—soliciting and awarding BOSS contracts for naval operations in the region. Also, according to NAVFACMAR, NAVFACMAR is the administrative authority—presiding over the daily contract operations while providing contractor oversight for NAVFAC contracts in Guam.

### ***Guam Base Operations Support Services Contract***

On September 12, 2014, NAVFAC Pacific awarded contract N62742-14-C-1150 for BOSS on the island of Guam.<sup>2</sup> The maximum dollar value for the cost-plus-award-fee contract, with all options exercised through February 2023, was \$532.3 million.<sup>3</sup> Under the contract terms, the contractor was to provide the labor, supervision, management, materials, equipment, transportation, and other items necessary to accomplish the services included in the contract. Those services were broken down into 14 functional areas, called annexes, and included port operations; ordnance; facilities maintenance; wastewater treatment; steam, water; and equipment maintenance, among others (see Appendix B for a description of all services). The contractor's performance under contract N62742-14-C-1150 was delayed due to bid protests. To ensure the continuation of facility and operations support on Guam, NAVFACMAR extended the period of performance under the prior contract, contract N40192-10-C-3000, from December 2012, to June 2015,

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<sup>2</sup> BOSS contracts are primarily for services, but may include minor construction items usually attributed to maintenance or repair.

<sup>3</sup> A cost-plus-award-fee contract provides for a fee consisting of a base amount fixed at the inception of the contract and award amount based on a judgmental evaluation by the Government.

and NAVFAC Pacific awarded the following cost-plus-fixed-fee contracts under the authority of Federal Acquisition Regulation (FAR) Subpart 6.3:<sup>4</sup>

- contract N62742-15-C-1160 awarded on June 29, 2015, with an estimated total cost of \$85.3 million including a 6-month base and option periods; and
- contract N62742-16-C-1130 awarded on June 24, 2016, with an estimated total cost of \$85.9 million including a 6-month base and option periods.

We included contract N62742-15-C-1160 and contract N62742-16-C-1130 in our review because the scope of our review was April 2016 to March 2017.

### ***Guam BOSS Contract Roles and Responsibilities***

The FAR states that contracting officers are responsible for ensuring performance on all necessary actions for effective contracting, ensuring compliance with the contract terms, and safeguarding the interests of the United States in its contractual relationships.<sup>5</sup> For the Guam BOSS contract, the NAVFACMAR contracting officer is responsible for contract planning, coordination, supervision, and administration. The NAVFACMAR contracting officer is also ultimately responsible for assessing contractor performance and certifying contractor invoices for payment.

The FAR also states that the contracting officer must appoint, in writing, a contracting officer's representative (COR) to help the contracting officer monitor the technical aspects, or administration, of a contract.<sup>6</sup> For the Guam BOSS contract, the NAVFACMAR contracting officer appointed 11 CORs to monitor the contractor's technical compliance and progress toward meeting requirements specified in Performance Work Statements for the 14 annexes.<sup>7</sup> Specifically, the CORs work on-site to oversee contractor performance, review contractor invoices, and accept contractor work. The CORs also recommend contract payments by acknowledging that services billed under public vouchers have been received, inspected, and validated as conforming to the contract.

Performance assessment representatives (PARs) help the CORs monitor contractor performance. For the Guam BOSS contract, CORs assigned 39 PARs to assess contractor performance and document it in performance assessment worksheets

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<sup>4</sup> A cost-plus-fixed-fee contract provides for payment to the contractor of a negotiated fee that is fixed at the inception of the contract in addition to cost-reimbursable expenses. FAR Subpart 6.3, "Other Than Full and Open Competition," dated March 2005, provides authority under 10 U.S.C. 2304(c)(1) to award sole-source contracts if there is only one responsible source and no other supplies or services will satisfy agency requirements.

<sup>5</sup> FAR Subpart 1.6, "Career Development, Contracting Authority, and Responsibilities."

<sup>6</sup> FAR Subpart 1.6 requires appointment of a COR on all contracts other than those that are firm-fixed price, and as appropriate for firm-fixed-price contracts, unless the contracting officer retains and executes the COR duties.

<sup>7</sup> Three personnel are CORs for two annexes each.

for the 14 annexes. Three senior PARs coordinate efforts of the PARs assigned to the annexes and review performance schedules and documentation for sufficiency, consistency, completeness, and accuracy of oversight.

### ***Functional Assessment Plans***

Contractor performance for the Guam BOSS contract is assessed based on FAR guidance for performance-based contracts. Specifically, FAR Subpart 37.6, “Performance-Based Acquisition,” states that performance-based contracts for services shall include a performance work statement with measurable performance standards to assess contractor performance. For the Guam BOSS contract, NAVFACMAR developed performance work statements in conjunction with functional assessment plans for the 14 annexes, in accordance with the performance assessment plan.<sup>8</sup> The functional assessment plans list individual work requirements that PARs must assess based on:

- Performance Objectives – outcomes the contractor should achieve for a work requirement; and
- Performance Standards – measurable level or range of outputs for the performance objective.<sup>9</sup>

The functional assessment plans also indicate the frequency by which work requirements are assessed, which can be weekly, monthly, or another predetermined period.<sup>10</sup>

### **Review of Internal Controls**

DoD Instruction 5010.40 requires DoD organizations to implement a comprehensive system of internal controls that provides reasonable assurance that programs are operating as intended and to evaluate the effectiveness of the controls.<sup>11</sup> We determined that NAVFACMAR’s internal controls were effective and provided reasonable assurance that the BOSS contractor was meeting contract requirements and appropriately billing the DoD. We will provide a copy of the report to the senior official responsible for internal controls at NAVFAC.

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<sup>8</sup> The Guam BOSS contract performance assessment plan established the overall methodology for assessing contractor performance.

<sup>9</sup> The FAR includes quality, timeliness, and quantity as examples of measurability.

<sup>10</sup> PARs for the Management and Administration Services Annex use a functional assessment plan with an alternative performance measurement structure.

<sup>11</sup> DoD Instruction 5010.40, “Managers’ Internal Control Program Procedures,” May 30, 2013.

## Finding

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### **NAVFACMAR Officials Adequately Monitored Contractor Performance and Conducted Sufficient Invoice Reviews**

NAVFACMAR adequately monitored contractor performance and conducted sufficient invoice reviews for goods and services provided under the Guam BOSS contract from April 1, 2016, through March 31, 2017.

Specifically, NAVFACMAR:

- developed complete and measurable functional assessment plans and used them to assess contractor performance;
- completed specific and detailed performance assessments;
- worked with contractor personnel to address performance concerns at the operations level; and
- collected and reviewed required invoice supporting documentation to verify that contractor-submitted charges were appropriate before invoices were paid.

NAVFACMAR adequately monitored contractor performance and conducted sufficient invoice reviews because it took corrective actions in response to recommendations made in a 2013 Naval Audit Service (NAS) report. Specifically, NAVFACMAR updated and implemented policies and procedures related to contractor performance assessments and invoice reviews, and established controls and provided training on appropriate contractor performance and cost oversight.

The corrective actions NAVFACMAR took in response to the recommendations improved contractor oversight and ensured that the contractor was performing in accordance with the Guam BOSS contract terms and conditions and that the contractor was paid correctly. NAVFAC has awarded multiple BOSS contracts around the world that are managed by other NAVFAC regions. Those contracts could benefit from the robust oversight structure NAVFACMAR has implemented in Guam.

## NAVFACMAR Adequately Monitored Contractor Performance

NAVFACMAR adequately monitored contractor performance for the Guam BOSS contract. We based our adequacy determination on whether NAVFACMAR performance assessment personnel complied with Federal, DoD, and NAVFAC requirements for monitoring contractor performance. In summary, to meet those criteria, contracting personnel should:

- develop complete and measurable functional assessment plans;
- prepare specific and detailed performance assessments; and
- work effectively with the contractor to address performance concerns at the operations level.

We outlined the specific criteria below.

### ***NAVFACMAR Functional Assessment Plans Were Complete and Measurable***

NAVFACMAR developed complete and measurable functional assessment plans and used them to assess contractor performance. According to the FAR, performance standards establish the performance level required by the Government to meet contract requirements.<sup>12</sup> Additionally, according to NAVFAC guidance, contractor work requiring assessment should have measurable performance standards to demonstrate directly that the contractor has met the performance objective, or enable the Government to infer with a high degree of confidence that the contractor has met the performance objective.<sup>13</sup> For the Guam BOSS contract, NAVFACMAR contracting personnel developed functional assessment plans in conjunction with performance work statements for the 14 annexes and the performance assessment plan. We reviewed functional assessment plans and performance work statements for 13 of the 14 annexes and determined that the plans contained 382 of the 385 work requirements that were listed in their respective performance work statements, and that only 5 of the 382 work requirements listed in the plans lacked a performance standard for measuring contractor performance.<sup>14</sup> Additionally, we reviewed 82 performance standards for a nonstatistical sample of 20 work requirements for 9 annexes and determined that all 82 met DoD guidelines for measurability.<sup>15</sup> For example, the Port Operations annex functional assessment

<sup>12</sup> FAR Part 37, "Service Contracting," Subpart 37.6, "Performance-Based Acquisition," subsection 37.603, "Performance Standards."

<sup>13</sup> NAVFAC Performance Assessment User Guide, Version 3.0, June 3, 2016.

<sup>14</sup> PARs for the Management and Administration Services Annex use a functional assessment plan with an alternative performance measurement structure.

<sup>15</sup> Office of the Under Secretary of Defense, Acquisition, Technology, and Logistics, "Guidebook for Performance-Based Services Acquisition (PBSA) in the Department of Defense," December 2000, provides examples of performance standards by type, including numerical measures for timeliness, numerical error rates, percentage accuracy rates, milestone rates, and cost control.

plan listed 62 work requirements for operations requirements, ship movement, logistics, oil spill response, harbor security, harbor maintenance, and other services that PARs used to assess contractor performance. One work requirement, “Port Operations Center,” requires the contractor to plan, schedule, and coordinate ship movement and support services effectively and efficiently. PARs were provided performance standards to assess this work requirement that contained maximum response times, maximum instances of insufficient staffing, and percentage of ship movements completed, enabling them to directly demonstrate that the contractor met work requirements.

### ***NAVFACMAR CORs and PARs Completed Specific and Detailed Performance Assessments***

NAVFACMAR CORs and PARs completed performance assessments that were specific and detailed. DoD and NAVFAC guidance requires performance assessment personnel to use detailed, performance-based, and specific comments when documenting contractor performance.<sup>16</sup> According to the guidance, these comments will validate whether contractor performance exceeds, meets, or does not meet performance standards. For the Guam BOSS contract, PARs used performance assessment worksheets to document contractor performance assessments at the annex work requirement level. Additionally, CORs used their monthly assessment worksheets to consolidate and document performance assessment worksheet results, PAR and Senior PAR feedback, and daily observations at the overall annex level. We determined that the PARs and CORs used detailed, performance-based, and specific comments in their contractor performance assessments. Specifically, we reviewed statistical samples of performance assessment worksheets and COR monthly assessment worksheets completed from April 1, 2016, through March 31, 2017, and identified that:

- 53 of the 56 sample performance assessment worksheets completed by PARs complied with NAVFAC guidance; and
- 34 of the 36 sample COR-completed monthly assessment worksheets complied with DoD guidance.

For example, one COR used specific and detailed commentary to assess the contractor’s performance in meeting cost management, project management, and technical service for the Material Management annex. Specifically, the COR documented in detail actions that the contractor took to adjust personnel schedules, eliminate overtime, and use lower-cost after hours support, which resulted in cost reduction, cost avoidance, and cost savings of \$3,138. Additionally, the COR incorporated specific performance standards and objectives when

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<sup>16</sup> Office of the Undersecretary of Defense, Acquisition, Technology, and Logistics, “DoD COR Handbook,” March 22, 2012, and NAVFACMAR “Performance Assessment User Guide,” Version 3.0, June 3, 2016.

assessing the project management and technical service metrics. By properly utilizing the assessment worksheets to their full intent, performance assessment personnel can properly validate contractor performance.

### ***NAVFACMAR CORs Worked with Contractor Personnel to Address Concerns at the Operations Level***

The NAVFACMAR CORs worked with contractor personnel to address contractor performance concerns at the operations level for the Guam BOSS contract. The DoD COR Handbook states that CORs must perform onsite visits as part of monitoring contractor performance to ensure that the contractor provides goods and services in accordance with contract terms and conditions. Additionally, the NAVFACMAR Performance Assessment User Guide states that the Government's relationship with the contractor should be one that promotes a strong and positive business alliance to achieve mutually beneficial goals, such as timely delivery and acceptance of high-quality services using efficient business practices.

We determined that the CORs effectively worked with contractor personnel to address contractor performance concerns at the operations level. Specifically, according to NAVFACMAR and contractor officials and through our observations at all 14 annexes, CORs were physically located on site, allowing them, the PARs, and the contractor annex managers to identify, assess, and resolve performance concerns at the operations level on a daily basis. CORs document deficiencies at the annex level any performance concerns not resolved at the operations level. We reviewed 168 COR assessment worksheets completed by annex CORs from April 1, 2016, to March 31, 2017. The COR assessment worksheets included cost management, technical service, and project management metrics that the COR used to assess and rate contractor performance. We identified that only 26 (15.5 percent) of the 168 COR assessment worksheets had contractor deficiencies, and that CORs worked with contractor annex managers to resolve identified deficiencies by the following month. For example, when assessing the cost management metric, CORs are required to determine whether the contractor controlled costs to meet contract requirements. The COR for the Facility Sustainment, Restoration, and Modernization annex worked with the contractor's annex manager to improve energy efficiency by replacing air conditioning units with higher energy efficient items, resulting in \$2,896 in savings per month for the contract. The COR and operations personnel worked together to effectively identify methods for reducing costs and savings to the Government.



We determined that the CORs effectively worked with contractor personnel to address contractor performance concerns at the operations level.

## NAVFACMAR Conducted Sufficient Invoice Reviews

NAVFACMAR collected and reviewed required invoice supporting documentation to verify that contractor-submitted charges were appropriate before invoices were paid. We based our adequacy determination on whether NAVFACMAR personnel complied with Federal requirements and Guam BOSS contract terms for the review of contractor-submitted invoices as outlined below. The FAR states that payments to the contractor will be based on receipt of a proper invoice in addition to satisfactory contractor performance.<sup>17</sup> Additionally, under the Guam BOSS contract terms, a proper invoice contains a summary of costs for each annex, and an itemization of cost types within each annex. Cost types include direct labor, material, subcontractor, equipment, and indirect. To determine whether the contractor submitted proper invoices, we nonstatistically selected and reviewed 16 invoices that the contractor submitted to NAVFACMAR for payment between April 1, 2016, and March 31, 2017. We identified that all of the contractor-submitted invoices summarized costs for each annex and itemized costs within each annex. Additionally, NAVFACMAR standard operating procedure for processing invoices requires CORs to validate that costs being invoiced are costs:

- for goods and services received by the Government during the billing period; and
- are reasonable, allowable, and allocable.<sup>18</sup>

CORs are also required to support their invoice reviews with supporting documentation. Supporting documentation include items such as receipts, subcontractor invoices, and timesheets. NAVFACMAR officials collected the proper supporting documentation to conduct invoice reviews. Specifically, NAVFACMAR officials developed the Voucher Validation Tool (the Tool) to help CORs validate contractor charges and document their invoice reviews. The Tool categorizes transactions by cost type. CORs then select a sample of transactions to review based on criteria set in the functional assessment plans.<sup>19</sup> The Tool ensures that CORs selected transactions representing all types of labor and non-labor costs incurred and charged by the contractor for the month.

For the Guam BOSS contract, CORs used the Tool to select and obtain supporting documentation for charges of represented work the contractor completed in the annexes. To determine whether NAVFACMAR effectively verified that contractor-submitted charges were appropriate before invoices were paid, we reviewed a nonstatistical sample of 5,113 accounting transactions representing

<sup>17</sup> FAR Subpart 32.905, "Payment Documentation and Process."

<sup>18</sup> NAVFAC Marianas Standard Operating Procedure AQ-03, "Public Voucher Payment Process, Base Operations Support (BOS) Contract," June 2, 2017.

<sup>19</sup> Criteria indicates the number, range, or dollar value of transactions to select by cost type, and varies by Annex.

\$2.4 million in charges the contractor submitted to NAVFACMAR from April 1, 2016, to March 31, 2017. We identified minimal discrepancies in the transactions. Specifically:

- for 4,164 transactions representing \$926,000 billed for labor costs, we identified \$2,120 (0.2 percent) in discrepancies, due to rounding errors; and
- for 949 transactions representing \$1.5 million billed for equipment, materials, other direct costs, and subcontract work, we identified \$2,243 (0.15 percent) in discrepancies, due to insufficient supporting documentation for one transaction.

## Corrective Actions Taken to Address Prior Report Recommendations

NAVFACMAR adequately monitored contractor performance and conducted sufficient invoice reviews because it took corrective actions in response to NAS Report No. N2013-037, "Guam Base Operating Support Contract," July 25, 2013. In that report, the NAS recommended that the Commanding Officer, NAVFACMAR, update and implement policy and procedures related to contractor performance assessments and invoice reviews, and establish controls and provide training on appropriate contractor performance and cost oversight. In response, NAVFACMAR officials updated policy and procedures, clarified roles and responsibilities, and developed automated tools for monitoring contractor performance and conducting invoice reviews. Specifically, NAVFACMAR officials:

- established Guam BOSS contract oversight as a sub-assessable unit in the Management Internal Control Program,
- ensured that personnel received mandatory and refresher contractor assessment and invoice review training,
- improved standard operating procedures by standardizing COR liability for illegal, improper, or incorrect payments,
- developed checklists to ensure personnel conducted complete contractor performance assessments and invoice reviews, and
- implemented the Tool to improve the invoice review process. Specifically, the Tool automated tasks that CORs had to perform manually, such as reviewing and documenting selected invoice transactions. Those improvements streamlined the invoice review process so CORs could devote more time to contractor performance assessments.

## Robust Oversight Structure Could Benefit Administration of Other BOSS Contracts

The corrective actions NAVFACMAR took in response to recommendations in the 2013 NAS report improved contractor oversight and ensured that the contractor was performing in accordance with the Guam BOSS contract terms and conditions and that the contractor was paid correctly. NAVFAC has awarded and manages multiple BOSS contracts around the world. The DoD Office of Inspector General (DoD OIG) and NAS issued 11 reports between June 2011 and October 2016 that identified systemic deficiencies related to contractor performance monitoring and invoice review processes for BOSS contracts, including:

- inadequate functional assessment plans for assessing contractor performance,
- improper support or justification for performance assessment ratings,
- no standard operating procedures for invoice reviews, and
- lack of supporting documentation for invoice reviews.

See Appendix A for the specific audit reports.<sup>20</sup> Those contracts and subsequent BOSS contracts issued by NAVFAC could benefit from the NAVFACMAR's robust oversight structure in place in Guam. Therefore, NAVFAC, Headquarters should compile lessons learned from NAVFACMAR's contract oversight procedures and apply those lessons learned to ongoing BOSS contracts.

## Recommendation, Management Comments, and Our Response

**We recommend that the Commander, Naval Facilities Engineering Command, Headquarters compile lessons learned from Naval Facilities Engineering Command Marianas' contract oversight procedures and apply those lessons learned to ongoing and future Base Operations and Support Services contracts in all Naval Facilities Engineering Command regions.**

### *Commander, Naval Facilities Engineering Command, Headquarters, Comments*

The Inspector General, NAVFAC, commenting for the Commander, NAVFAC, Headquarters, agreed, stating that NAVFAC Headquarters is working with NAVFAC Pacific and NAVFACMAR to identify lessons learned that will be applied to continue process improvement for all NAVFAC-administered Facilities Support contracts and BOSS contracts. NAVFAC is reviewing Guam BOSS contract documentation to

<sup>20</sup> One report listed in Appendix A is a summary report that includes eight contract-related reports.

determine whether any tailoring resulted in improvements to NAVFAC standards and evaluating any enhancements to plans or processes that exceed current NAVFAC guidance. This review and any required changes to guidance or training is expected to be completed by September 30, 2018.

### *Our Response*

Comments from the Inspector General, NAVFAC addressed all specifics of the recommendation. Therefore, the recommendation is resolved. We will close the recommendation when we verify that NAVFAC Headquarters has reviewed NAVFACMAR's contract oversight procedures to identify lessons learned that will be applied to ongoing and future BOSS contracts.

## Appendix A

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### Scope and Methodology

We conducted this performance audit from February 2017 through February 2018 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

To understand Guam BOSS contract operations, processes, and roles and responsibilities, we reviewed the FAR, DoD COR Handbook, and NAVFACMAR standard operating procedures. In addition, we reviewed the terms and conditions of BOSS contracts N62742-15-C-1160 and N62742-16-1130, contract modifications, performance assessment plans, and functional assessment plans. Furthermore, through teleconferences and in person during our site visit to Guam in June 2017, we interviewed NAVFACMAR contract administrative, COR, and PAR personnel, and contractor accounting and annex manager personnel.

To determine whether NAVFACMAR adequately monitored contractor performance under the Guam BOSS contract, we reviewed the performance assessment plan, performance work statements, and functional assessment plans to determine whether they were fully aligned with contract terms and conditions, complete, and had measurable performance standards. Additionally, we analyzed 36 COR monthly performance worksheets and 56 PAR performance assessment worksheets to determine whether CORs and PARs used detailed, performance-based, and specific comments when documenting contractor performance assessments. We also interviewed NAVFACMAR performance assessment personnel and contractor annex managers for all 14 annexes to determine whether CORs effectively worked with contractor personnel to ensure work quality.

To determine whether NAVFACMAR conducted sufficient invoice reviews, we compared NAVFACMAR's invoice review procedures to FAR invoice review requirements and BOSS contract terms. Additionally, we reviewed invoices submitted by the contractor to determine whether the invoices were proper, and amounts billed were properly supported and appropriately verified.

## Use of Computer-Processed Data

We relied on computer-processed data from the following sources during our audit.

- **Electronic Document Access application (EDA):** EDA enables authorized DoD users to securely access, store, and retrieve contracts, contract modifications, and related contract data online. We used data from EDA to obtain Guam BOSS contract information and invoice data for statistical and nonstatistical sample selections. To assess the reliability of data from EDA, we compared background information from EDA to contract information obtained from public websites. We also compared invoice data from EDA to spreadsheets containing summary-level and transaction-level invoice data from NAVFACMAR. Based on our review, we determined that the data from EDA was complete and accurate and therefore, sufficiently reliable for purposes of this report.
- **G-Net application:** G-Net is a web-based reporting system the BOSS contractor uses to submit invoices and supporting documentation to NAVFACMAR for CORs to review and validate labor and non-labor charges. We used data from G-Net to determine whether NAVFACMAR effectively verified that contractor-submitted charges were appropriate before invoices were paid. To assess the reliability of data from G-Net, we compared invoice cost totals from G-Net-generated spreadsheets to invoice cost totals from Invoice, Receipt, Acceptance, and Property Transfer printouts provided by the Defense Contract Audit Agency. We identified that the cost totals for both matched. Therefore, we determined that the data from G-Net were sufficiently reliable for purposes of this report.
- **Performance Assessment Reporting System (the system):** The system is a module of the G-Net application which allows performance assessment personnel to create and submit contractor performance assessments. We used the COR Monthly Assessment worksheet and performance assessment worksheet data from the system, completed from April 1, 2016, to March 31, 2017, to determine whether CORs and PARs properly documented their performance assessments. To assess the reliability of data from the system, we reviewed the performance assessment plan for the Guam BOSS contract and interviewed NAVFACMAR contracting personnel who were knowledgeable of the system. We identified that the performance assessment documentation in the system was historical in nature and the underlying data was not subject to manipulation. Therefore, we determined that the data from the system was sufficiently reliable for purposes of this report.

- NAVFACMAR VVT [the Tool]: The Tool is a Microsoft Access application created by NAVFACMAR that enables CORs to randomly select individual transactions from contractor invoices for review, and document their results. To assess the reliability of data from the Tool, we interviewed NAVFACMAR personnel who developed the Tool. Also, NAVFACMAR personnel gave us a presentation about the application's features, how it is used, and how it enables users to select invoice data for review. Additionally, we compared the Tool outputs (reports listing contractor costs by type), with data supporting the Tool inputs (subcontractor generated invoices, purchase orders, and third party timesheets), and found no differences. Therefore, we determined that the data from the Tool was reliable for purposes of this report.

## Use of Technical Assistance

During the audit, we requested and received technical assistance from the DoD OIG Quantitative Methods Division. Specifically, Quantitative Methods Division personnel assisted us in selecting two statistical samples of performance assessment worksheets to review. We used statistical sampling to ensure that unbiased samples of these worksheets by annex were selected for review.

## Prior Coverage

During the last 5 years, the DoD OIG and the NAS have issued four reports discussing Base Operations Support contracts or contracting evaluation related topics. Unrestricted DoD OIG reports can be accessed at <http://www.dodig.mil/reports.html/>. NAS reports can be requested via e-mail inquiries at [NAVAUDSVC.FOIA@navy.mil](mailto:NAVAUDSVC.FOIA@navy.mil).

### **DoD OIG**

Report No. DODIG-2017-004, "Summary Report - Inspections of DoD Facilities and Military Housing and Audits of Base Operations and Support Services Contracts," October 14, 2016

The DoD OIG reviewed eight audit reports issued from June 2011 through March 2016 related to BOSS contracts and facilities maintenance worth approximately \$1.8 billion to identify common issues. In those reports, the DoD OIG identified two systemic contracting and oversight problem areas. Specifically, five audit reports identified problems with contract documentation and requirements, and six audit reports identified contract oversight problems.

## **Navy**

Report No. N2014-0018, "Naval Station Guantanamo Bay Base Operating Support Contracts," April 9, 2014

The NAS identified that NAVFAC Southeast and NAVFAC Public Works Department, Guantanamo Bay, did not have sufficient internal controls in place to ensure the Base Operating Support contracts were effectively administered in accordance with policies and procedures. Additionally, the NAS also identified that NAVFAC Southeast and NAVFAC Public Works Department, Guantanamo Bay, did not provide sufficient oversight to ensure that contractors were performing in accordance with requirements.

Report No. N2013-0037, "Guam Base Operating Support Contract," July 25, 2013

The NAS identified that NAVFACMAR did not sufficiently perform surveillance to ensure that the Base Operating Support contract was administered in accordance with contracting and disbursing policy and procedures. Specifically, PARs did not properly document or use functional assessment plans to assess contractor performance. Additionally, CORs used contractor-provided assessments to support monthly assessment ratings, and did not validate the vouchers submitted by the contractor for goods and services.

Report No. N2013-0030, "Naval Air Station Sigonella, Italy Base Operating Support Contract," June 7, 2013

The NAS identified that NAVFAC did not have sufficient internal controls in place to ensure the Base Operating Support contract was effectively administered in accordance with contracting and disbursing policies and procedures. Specifically, NAVFAC did not provide sufficient surveillance over the contract to ensure that the contractor was performing in accordance with requirements and did not perform sufficient validation of invoices to ensure the Navy received goods and services for which it paid or that costs were effectively managed and allowable.

## Appendix B

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### Guam Base Operations Support Services Contract Annexes

The Guam BOSS contract includes the following 14 annexes detailing the services the contractor is to provide.

**1. Management and Administration:**

Project leadership, human resources, financial services, contract administration, Government property administration, project safety, quality management, and procurement.

**2. Port Operations:**

Fleet support, tugs, pilots, berthing and hotel services, ship moves, magnetic silencing, oil spill response, harbor security, and maintenance.

**3. Ordnance:**

Fleet support and ordnance receipt, inventory, and issuance.

**4. Material Management:**

Base supply, warehousing, and cargo deployment.

**5. Facility Management and Engineering Services:**

Facility-related engineering services.

**6. Sustainment, Restoration, and Modernization:**

Navy facilities maintenance.

**7. Sustainment, Restoration, and Modernization (Anderson Air Force Base):**

Air Force facilities maintenance.

**8. Electrical:**

Primary systems, maintenance, and repair.

**9. Wastewater:**

Treatment and maintenance, including bilge and oily water treatment system.

**10. Steam and Demineralized Water:**

Boilers, steam lines, and production of demineralized water for submarines.

**11. Potable Water:**

Production, treatment, and distribution of potable water, and related maintenance.

**12. Base Support Vehicles and Equipment:**

Navy support vehicle and equipment operations and maintenance.

**13. Base Support Vehicles and Equipment (Anderson Air Force Base):**

Air Force support vehicle and equipment operations and maintenance.

**14. Environmental:**

Compliance, hazardous waste operations, and Navy water laboratory.

# Management Comments

## Naval Facilities Engineering Command



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

5041  
Ser 09IG/008  
29 MAR 2018

From: Commander, Naval Facilities Engineering Command  
To: Department of Defense, Office of Inspector General

Subj: MANAGEMENT RESPONSES: CONTROLS OVER THE GUAM BASE  
OPERATIONS SUPPORT SERVICES CONTRACT (DRAFT AUDIT REPORT  
D2017-0086)

Ref: (a) DoD IG Draft Audit Report D2017-0086 dated 06 Mar 18

Encl: (1) NAVFAC official management responses

1. Per reference (a), enclosure (1) provides NAVFAC's official management responses to the Draft Audit Report findings and recommendation.

2. The NAVFAC Headquarters' point of contact is [REDACTED]. He can be reached at [REDACTED].

[REDACTED]  
E. J. KARLSON  
Captain, CEC, U.S. Navy  
Inspector General

## Naval Facilities Engineering Command (cont'd)

NAVFAC response to:  
DoD Inspector General (DoD IG) Draft Report D2017-0086 of 06 Mar 2018 -  
CONTROLS OVER THE GUAM BASE OPERATIONS SUPPORT SERVICES CONTRACT

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

The DoD IG recommends the Commander, NAVFAC:

**Recommendation.** We recommend that the Commander, Naval Facilities Engineering Command, Headquarters compile lessons learned from Naval Facilities Engineering Command Marianas' contract oversight procedures and apply those lessons learned to ongoing and future Base Operations Support Services contracts.

**NAVFAC Response:**

Concur. NAVFAC HQ agrees with the finding and recommendations in the DoD IG Draft Report D2017-0086. NAVFAC HQ is working with NAVFAC Pacific and NAVFAC Marianas to identify lessons learned that will be applied to continue process improvement for all NAVFAC administered FSC and BOS Contracts. NAVFAC is reviewing Guam's contract, Performance Assessment Plan, and documentation to determine if any tailoring resulted in improvements to NAVFAC standards and evaluating any enhancements to plans or processes that exceed current NAVFAC guidance. This review and any required changes to guidance or training is expected to be completed by 30 September 2018.

**Target Completion Date:** 30 September 2018.

Enclosure (1)

## Acronyms and Abbreviations

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<b>BOSS</b>	Base Operations Support Services
<b>COR</b>	Contracting Officer's Representative
<b>EDA</b>	Electronic Document Access
<b>FAR</b>	Federal Acquisition Regulation
<b>IRAPT</b>	Invoice Receipt, Acceptance, and Property Transfer
<b>NAS</b>	Naval Audit Service
<b>NAVFAC</b>	Naval Facilities Engineering Command
<b>NAVFACMAR</b>	Naval Facilities Engineering Command Marianas
<b>PAR</b>	Performance Assessment Representative

# **Whistleblower Protection**

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