



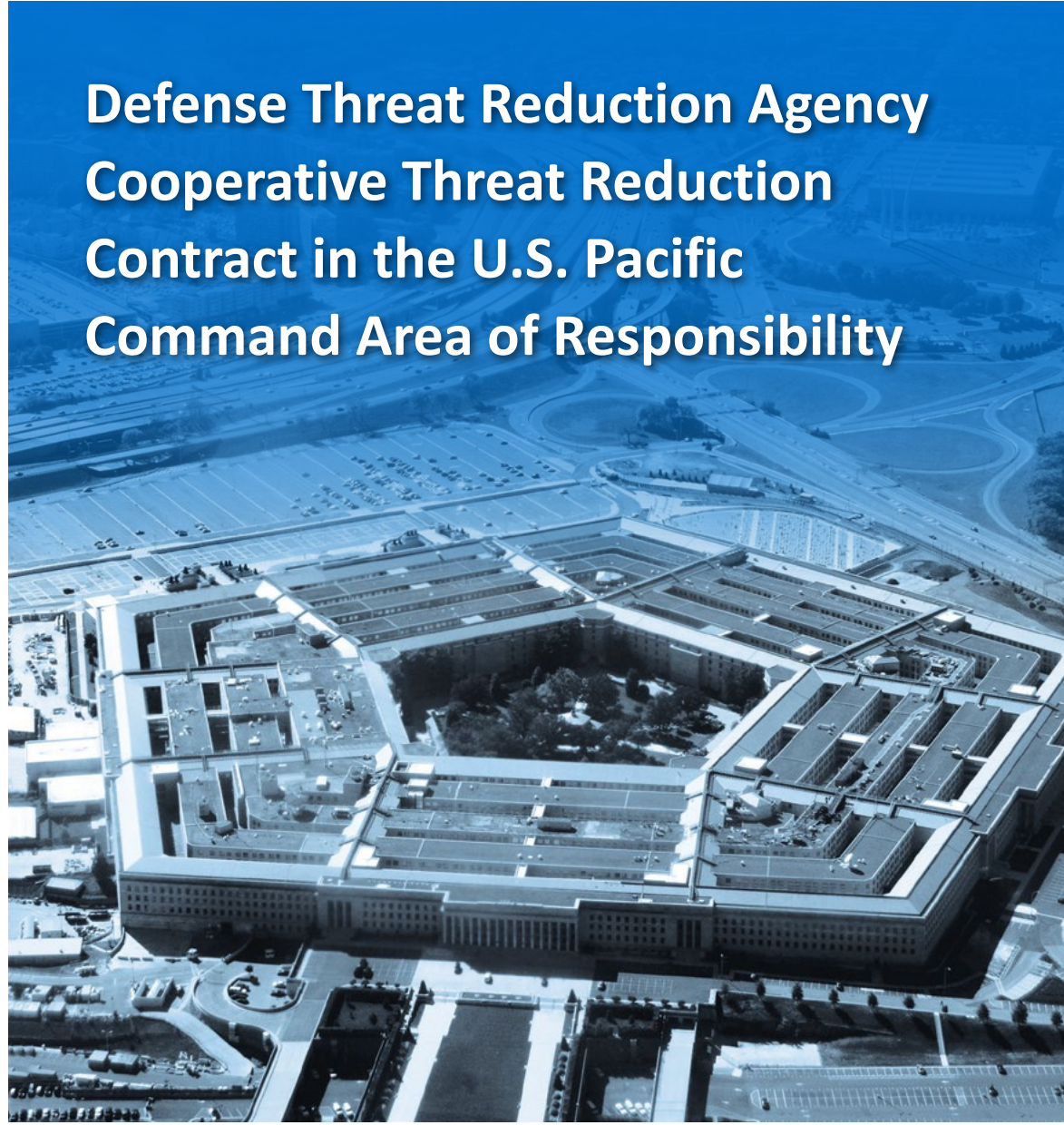
INSPECTOR GENERAL

U.S. Department of Defense

FEBRUARY 1, 2018



Defense Threat Reduction Agency Cooperative Threat Reduction Contract in the U.S. Pacific Command Area of Responsibility



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Results in Brief

Defense Threat Reduction Agency Cooperative Threat Reduction Contract in the U.S. Pacific Command Area of Responsibility

February 1, 2018

Objective

We determined whether the Defense Threat Reduction Agency (DTRA) adequately monitored contractor performance and conducted sufficient invoice reviews for goods and services provided under the Cooperative Threat Reduction contract, HDTRA1-11-D-0007. For this audit, we reviewed task order 11, which is being performed in the Philippines.¹

Background

DoD uses the Cooperative Threat Reduction program to prevent the proliferation of weapons of mass destruction, and reduce chemical, biological, radiological, and nuclear threats. The Cooperative Threat Reduction program is in over 30 countries, including the Philippines. DTRA is the implementing agency for the DoD Cooperative Threat Reduction program. During our audit, DTRA was executing a Proliferation Prevention Program-related task order in the Philippines. The Proliferation Prevention Program addresses the trafficking and proliferation of weapons of mass destruction, and its materials, components, technology, and expertise. On June 1, 2015, DTRA awarded task order 11, valued at \$30.8 million with a period of performance

Background (cont'd)

from June 1, 2015, to November 30, 2017.² DTRA awarded task order 11 for the construction of two regional National Coast Watch Stations, three substations, and a Joint Maritime Law Enforcement Training Center to support the Philippines Maritime Proliferation Prevention Project. Task order 11 also provided weapons of mass destruction detection equipment and training for the Philippine National Police-Maritime Group, the Philippine Coast Guard, and the Philippine Bureau of Customs.

Finding

Overall, DTRA adequately monitored contractor performance and conducted sufficient invoice reviews for task order 11. Specifically, DTRA personnel:

- monitored and documented contractor performance and tracked cost data;
- ensured contractor performance was timely and within the scope of work;
- ensured contractor-furnished materials and services complied with the contract;
- reconciled contract invoices with disbursement data; and
- verified that contractor invoices were reasonable.

However, the DTRA contracting officer did not prepare a quality assurance surveillance plan to document the work requiring surveillance, the method of surveillance, or the process used to review invoices, as required. DTRA contracting officials stated that they did not prepare a quality assurance surveillance plan because the contract included both goods (construction and equipment) and services (training); therefore, a quality assurance surveillance plan was

¹ We will be referring to task order 11 of contract HDTRA1-11-D-0007 as "task order 11" throughout the report. We will also be referring to contract HDTRA1-11-D-0007 as "the contract" throughout the report.

² Modification 13, issued on August 29, 2017, extends the period of performance for contract line item numbers 0001, 0002, 0003, and 0006 from November 30, 2017 to January 31, 2018.



Results in Brief

Defense Threat Reduction Agency Cooperative Threat Reduction Contract in the U.S. Pacific Command Area of Responsibility

Finding (cont'd)

not required. However, the Defense Federal Acquisition Regulation Supplement requires that a quality assurance surveillance plan be prepared for service contracts and does not make a distinction for contracts that provide both goods and services. Without a quality assurance surveillance plan, DTRA cannot ensure that frequent contracting officer's representative rotations and personnel turnover will not adversely affect the consistent, long-term quality assurance methods used to validate contractor performance.³ DTRA also cannot ensure that systematic quality assurance methods are in place to validate that contractor quality control efforts are timely, effective, and are delivering the results specified in the contract or task order. If properly implemented, a quality assurance surveillance plan should establish a detailed, continuous quality assurance process for rotational contracting officer's representatives, and help ensure consistent high standards of contractor oversight.

Recommendations

We recommend that the Defense Threat Reduction Agency Director, Acquisition, Finance, and Logistics, establish implementing guidance to clarify that all contracts for services require a quality assurance surveillance plan, whether or not goods are also provided under the contract. We also recommend that the Director develop and implement a quality assurance surveillance plan for all ongoing service contracts and task orders, whether or not goods are also provided under the contract.

Management Comments Required

As of January 26, 2018, the Defense Threat Reduction Agency Director, Acquisition, Finance, and Logistics, had not responded to our December 19, 2017 request for comments on our draft report recommendations. Therefore, we are issuing our final report without the Director's comments, and the recommendations are unresolved. We request that the Director provide comments on the final report. Please see the Recommendations Table on the next page.

³ A contracting officer's representative is designated by the contracting officer to assist in the technical monitoring or administration of a contract. Contracting officer's representatives observe whether contractors comply with all contract requirements and that overall contractor performance is commensurate with the level of payments.

Recommendations Table

Management	Recommendations Unresolved	Recommendations Resolved	Recommendations Closed
Defense Threat Reduction Agency Director, Acquisition, Finance, and Logistics	1.a, 1.b	None	None

Please provide Management Comments by March 1, 2018.

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**

February 1, 2018

MEMORANDUM FOR COMMANDER, U.S. PACIFIC COMMAND
DIRECTOR, DEFENSE THREAT REDUCTION AGENCY

SUBJECT: Defense Threat Reduction Agency Cooperative Threat Reduction Contract in the
U.S. Pacific Command Area of Responsibility
(Report No. DODIG-2018-064)

We are providing this report for review and comment. The Defense Threat Reduction Agency Director, Acquisition, Finance and Logistics, did not respond to the recommendations in the draft report.

DoD Instruction 7650.03 requires that all recommendations be resolved promptly. Therefore, we request that the Defense Threat Reduction Agency Director, Acquisition, Finance and Logistics comment on Recommendations 1.a and 1.b by March 1, 2018.

Please send a PDF file containing your comments to audrco@dodig.mil. Copies of your comments must have the actual signature of the authorizing official for your organization. We cannot accept the /Signed/ symbol in place of the actual signature. If you arrange to send classified comments electronically, you must send them over the SECRET Internet Protocol Router Network (SIPRNET).

We appreciate the courtesies extended to the staff. Please direct questions to me at (703) 699-7331 (DSN 664-7331).

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

Carol N. Gorman
Assistant Inspector General
Cyberspace Operations

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Acronyms and Abbreviations

Introduction

Objective

Our audit objective was to determine whether the Defense Threat Reduction Agency (DTRA) adequately monitored contractor performance and conducted sufficient invoice reviews for goods and services provided under the Cooperative Threat Reduction (CTR) contract, HDTRA1-11-D-0007. For this audit, we reviewed task order 11, which is being performed in the Philippines.⁴

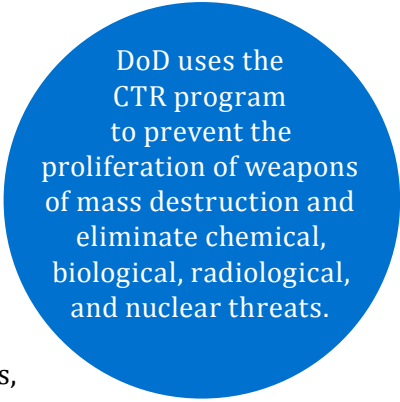
Background

DoD uses the CTR program to prevent the proliferation of weapons of mass destruction (WMDs), and eliminate chemical, biological, radiological, and nuclear threats. The program's mission is to collaborate with willing countries worldwide to reduce the threat of WMDs and related materials, technology, and expertise, including providing for the safe destruction of WMDs, associated delivery systems, and related infrastructure.

The CTR program was founded in 1991 to focus exclusively on Russia and former member republics of the Soviet Union and has evolved into a global program integrating over 30 partner nations around the world.⁵

DTRA is the implementing agency for the DoD CTR program. DTRA is responsible for managing and executing the program's projects and activities, including developing technical requirements with agencies and ministries of partner nations; awarding and administering contracts; and managing project cost, schedule, and performance. DTRA uses the following six distinct sub-programs to execute the CTR program's mission:

- Strategic Offensive Arms Elimination,
- Chemical Weapons Destruction,
- Global Nuclear Security,
- Cooperative Biological Engagement,



DoD uses the CTR program to prevent the proliferation of weapons of mass destruction and eliminate chemical, biological, radiological, and nuclear threats.

⁴ We will be referring to task order 11 of contract HDTRA1-11-D-0007 as "task order 11" throughout the report. We will also be referring to contract HDTRA1-11-D-0007 as "the contract" throughout the report.

⁵ In FY 2016, DoD executed CTR program projects and activities in the following countries: Afghanistan, Armenia, Azerbaijan, Cambodia, Cameroon, China, Ethiopia, Georgia, Guinea, India, Iraq, Jordan, Kazakhstan, Kenya, Laos, Lebanon, Liberia, Malaysia, Moldova, Pakistan, Philippines, Russia, Senegal, Sierra Leone, South Africa, Tanzania, Thailand, Tunisia, Turkey, Uganda, Ukraine, Uzbekistan, and Vietnam.

- the Proliferation Prevention Program (PPP), and
- the Threat Reduction Engagement Program.

During our audit, DTRA was executing a PPP-related task order in the Philippines.⁶ The PPP addresses the trafficking and proliferation of WMDs and its related materials, components, technology, and expertise. As part of the PPP, DTRA executes projects, including the Philippines Maritime Proliferation Prevention Project, which focuses on the long-term sustainment of U.S. equipment. In doing so, DTRA ensures that each partner nation has the capability, resources, and expertise to sustain the equipment upon project completion. The goal of the Philippines Maritime Proliferation Prevention Project is to improve the capability of the Philippines to deter, detect, and prohibit WMDs and related materials from transiting through or near Philippines' territorial waters by providing equipment and training.

Cooperative Threat Reduction Integrating Contract II

DTRA uses the CTR Integrating Contract (CTRIC) II as a multiple-award contract to support CTR program operations outside of the U.S. CTRIC II has a maximum order amount of \$950 million and a period of performance from April 2011 to April 2017.⁷ Under the CTRIC II contract vehicle, DTRA awarded four multiple-award indefinite delivery/indefinite quantity (IDIQ) contracts to provide services at various locations overseas.⁸ In April 2011, DTRA awarded the contract to Raytheon Technical Services Company (RTSC). As of December 2017, DTRA had awarded 11 task orders under the contract with a total dollar value of \$277.2 million.

On June 1, 2015, DTRA awarded task order 11 to RTSC for the construction of two regional National Coast Watch Stations (Palawan and Cebu), three substations (Antique, Negros Oriental, and Punta Bilar), and a Joint Maritime Law Enforcement Training Center (Palawan).⁹ Task order 11 also provided WMD-detection equipment and training for the Philippine National Police-Maritime Group, the Philippine Coast Guard, and the Philippine Bureau of Customs. Task order 11 is valued at \$30.8 million; it is cost-plus-fixed fee, and has a period of performance from June 1, 2015 to November 30, 2017.¹⁰

⁶ DTRA also uses the Cooperative Biological Engagement Program in the Philippines.

⁷ The CTRIC II contract has a 5-year base period and 1 option year. The work for task orders awarded under the CTRIC II contract must be completed within 48 months after the end of the base period or after the optional ordering period, if exercised. Therefore, the work should be complete by April 2020 (April 2021 if the option is exercised).

⁸ IDIQ contracts provide for an indefinite quantity of supplies or services during a fixed period. The four IDIQ contracts were HDTRA1-11-D-0010, awarded to Bechtel National, Inc.; HDTRA1-11-D-0007, awarded to Raytheon Technical Services Co.; HDTRA1-11-D-0008, awarded to Parsons Global Services, Inc.; and HDTRA1-11-D-0009, awarded to URS Federal Services International, Inc.

⁹ Negros Oriental includes the Dumaguete substation and the Apo Island remote sensor site.

¹⁰ Cost-plus-fixed-fee contracts are cost-reimbursement contracts that provide for payment to the contractor of a negotiated fee that is fixed at the inception of the contract. Modification 13, issued on August 29, 2017, extended the period of performance for contract line item numbers 0001, 0002, 0003, and 0006 from November 30, 2017 to January 31, 2018.

DTRA Quality Assurance Roles and Responsibilities

DTRA is responsible for providing contract quality assurance to ensure that the contractor complies with the contract terms and conditions and is paid correctly for the work completed. The DTRA contracting officer's representatives (CORs) are responsible for the inspection and acceptance of all work performed under the task order. CORs are also responsible for providing technical direction regarding work specifications in the statement of work (SOW), and monitoring the progress and quality of the contractor's performance. In September 2017, DTRA had two CORs assigned to task order 11. Both CORs were military officers on rotational assignments, which means neither COR was present for the entire task order performance period. The CORs were located at Ft. Belvoir, Virginia, and traveled to the Philippines 17 times from August 2015 to October 2017 to conduct quality assurance reviews and monitor contractor performance on task order 11.

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.¹¹ We identified an internal control weakness related to DTRA's lack of documentation detailing the contract work requiring surveillance, the method of surveillance, and the process used to review invoices for task order 11. Specifically, DTRA did not prepare a quality assurance surveillance plan (QASP) for task order 11. We will provide a copy of the final report to the senior official responsible for internal controls at DTRA.

¹¹ DoD Instruction 5010.40, "Managers' Internal Control Program Procedures," May 30, 2013.

Finding

DTRA Provided Adequate Contract Quality Assurance But Did Not Prepare a QASP

Overall, DTRA adequately monitored contractor performance and conducted sufficient invoice reviews for task order 11. Specifically, DTRA personnel:

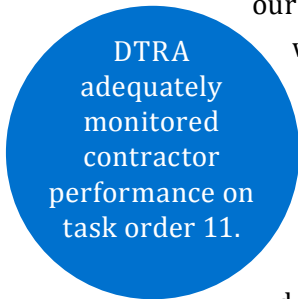
- monitored and documented contractor performance and tracked cost data;
- ensured contractor performance was timely and within the scope of work;
- ensured contractor-furnished materials and services complied with the contract;
- reconciled contract invoices with disbursement data; and
- verified that contractor invoices were reasonable.

However, the DTRA contracting officer did not prepare a QASP to document the work requiring surveillance, the method of surveillance, or the process used to review invoices, as required. DTRA contracting officials stated that they did not prepare a QASP because the contract included both goods and services; therefore, a QASP was not required. However, the Defense Federal Acquisition Regulation Supplement (DFARS) requires a QASP be prepared for service contracts and does not make a distinction for contracts that provide both goods and services.¹² Without a QASP, DTRA cannot ensure that frequent COR rotations and personnel turnover will not adversely affect the consistent, long-term quality assurance methods used to validate contractor performance. DTRA also cannot ensure that systematic quality assurance methods are in place to validate that contractor quality control efforts are timely, effective, and are delivering the results specified in the contract or task order. If properly implemented, a QASP should establish a detailed, continuous quality assurance process for rotational CORs, and help ensure consistent high standards of contractor oversight.

¹² DFARS Part 237, "Service Contracting," Subpart 237.1, "Service Contracts – General," Section, 237.172, "Service Contracts Surveillance."

DTRA Adequately Monitored Contractor Performance

DTRA adequately monitored contractor performance on task order 11. We based our adequacy determination on whether DTRA CORs complied with Federal Acquisition Regulation (FAR), DFARS, and Defense Contingency COR Handbook requirements for monitoring contractor performance. According to the FAR, Government employees will perform contract quality assurance reviews to determine whether supplies or services conform to contract requirements.¹³ In addition, DFARS states that departments and agencies will develop and manage a systematic, cost-effective, Government contract quality assurance program to ensure that contract performance conforms to specified requirements.¹⁴ Further, the Defense Contingency COR Handbook addresses the key aspects of contract quality surveillance.¹⁵ Specifically, it states that the COR must do the following to monitor contract performance:



- monitor and document contractor performance and track cost data;
- ensure contractor performance is timely and within the scope of work; and
- ensure that contractor-furnished materials or services comply with the contract.

DTRA CORs Monitored and Documented Contractor Performance and Tracked Cost Data

DTRA CORs monitored and documented contractor performance by conducting site visits to the contractor work sites. Between August 2015 and October 2017, the CORs traveled to the Philippines 17 times to visit the National Coast Watch System sites. During a June 26 to July 5, 2017 site visit to the Philippines, we observed the DTRA CORs' oversight of Army Test and Evaluation Command personnel as they tested equipment capabilities to ensure the contractor was meeting contract requirements. For example, DTRA CORs observed Army personnel testing backup batteries at the National Coast Watch Station in Cebu to determine whether the batteries were properly grounded.

DTRA CORs also reviewed weekly operation slides and participated in quarterly project management reviews with the contractor to address the status of ongoing work, issues, and risks identified by the contractor and corrective action items.

¹³ FAR Part 46, "Quality Assurance," Subpart 46.4, "Government Contract Quality Assurance," 46.401, "General."

¹⁴ DFARS Part 246, "Quality Assurance," Subpart 246.1, "General," Section 246.102, "Policy."

¹⁵ Defense Contingency COR Handbook, version 2, September 2012.

In addition, DTRA completed annual contractor performance assessment reports that identified positive and negative results of contractor performance. For example, during the May 2016 through May 2017 performance period, DTRA personnel gave the contractor an exceptional rating for regulatory compliance because the contractor held regular safety meetings and ensured construction workers understood and complied with stricter standards. To further illustrate, during the June 2015 through May 2016 performance period, DTRA personnel gave the contractor a satisfactory rating for product quality because one deliverable contained information that was either outdated or irrelevant, and another deliverable required multiple edits by Government personnel.¹⁶

DTRA CORs also tracked cost data during quarterly project management reviews with the contractor. Specifically, the CORs reviewed summaries of contract funding, obligations, and disbursements by contract line item number to prevent payments on incorrect lines of accounting. Additionally, the CORs stated that they reviewed the Contract Performance Report, which the contractor submitted monthly, to track budgeted and actual costs of work performed.

DTRA Ensured Contractor Performance Was Timely and Within the Scope of Work

DTRA CORs ensured that contractor performance was timely and within the scope of the contract by reviewing contract data requirements list deliverables before accepting deliverables from the contractor.¹⁷ For example, when evaluating the timeliness of contractor deliverables, DTRA CORs stated that the contractor allowed for proper lead times for land deed procurement and code compliance, and began construction on time, with only minor delays. The contractor received a rating of very good for this evaluation factor. In another example, DTRA CORs stated that they returned the sustainment and transition plan to the contractor three times for revision before approving it on February 9, 2017; the sustainment and transition plan is one of the contract deliverables in the contract data requirements list. In addition, the CORs used subject matter experts from the Army Test and Evaluation Command to perform equipment functional tests to ensure equipment was operating properly. For instance, we observed Army personnel following a test script to evaluate the operation of a VHF radio at the Dumaguete sub-station. During the test, Army personnel contacted another site, checked each frequency for connectivity and clarity, and determined whether the two-way communication complied with the contract.

¹⁶ A rating of satisfactory means that only minor problems, or major problems the contractor recovered from without impact to the contract or order, were discovered. Available ratings in descending order include exceptional, very good, satisfactory, marginal, and unsatisfactory.

¹⁷ The contract data requirements list is the standard format for identifying deliverable data requirements in a contract.

DTRA CORs also ensured that the contractor provided the training outlined in the contract by approving the training plan and attending specific classes. We reviewed class rosters from February 2016 to June 2017, which indicated the contractor provided training, in accordance with the contract, to individuals from multiple agencies in the areas of equipment and WMD inspection, common operating picture, high frequency radio operations and maintenance, and field training exercises. The rosters also showed that the CORs attended two of the training classes to provide oversight.

DTRA Ensured Contractor-Furnished Materials and Services Complied With the Contract

DTRA CORs ensured that contractor-furnished materials and services complied with the contract by approving the master equipment list (MEL) and the equipment procurement plan (EPP). The MEL is the accountability list for all Government-furnished equipment. As of May 25, 2017, the MEL included 4,820 equipment items, and was valued at \$2 million. The EPP is a list of all remaining equipment requirements that the contractor is planning to purchase. As of November 22, 2016, the EPP listed 3,078 required equipment items, and was valued at \$2.2 million.

We conducted the following reviews to verify the accuracy of the MEL and the validity of the EPP.

- We non-statistically selected a sample of 109 items from the MEL and traced the items to their physical location. We found that 107 of 109 equipment items existed in the location assigned in the MEL. The locations of the remaining 2 of 109 equipment items were incorrectly recorded in the MEL.
- We non-statistically selected 90 items located at the sites we visited and traced them back to the MEL. We determined that 86 of the 90 items selected were accurately reported on the MEL, and the location of the remaining 4 items was incorrectly recorded in the MEL.
- We non-statistically selected 139 items from the EPP to determine whether the items had requirements supported by building design packages. We determined that 137 of the 139 items selected had requirements supported by building design packages. According to the DTRA COR, the two remaining equipment items were spare items not assigned to any particular location.

We discussed with the CORs the eight differences that we identified during our review. On October 25, 2017, the COR provided a new MEL and EPP, which had been updated to correct the location of five MEL items and one of the EPP items. The COR stated that the November 2017 update to the MEL would correct the

remaining MEL difference we identified. The DTRA COR stated that the remaining difference identified in the EPP would remain because DTRA was not anticipating another update to the EPP.

DTRA Conducted Sufficient Invoice Reviews

DTRA CORs conducted sufficient invoice reviews on task order 11. The following criteria apply to invoice reviews under cost reimbursement contracts.¹⁸

DTRA CORs conducted sufficient invoice reviews on task order 11.

- The DoD Financial Management Regulation states that the COR is not required to review invoices under a cost reimbursement contract. The DoD Financial Management Regulation specifies that the Defense Contract Audit Agency (DCAA) has the sole authority for verifying claimed costs and provisionally approving interim payment requests under cost reimbursement, time and materials, and labor-hour type contracts. The regulation also specifies that a COR may not be delegated authority to approve these types of payments, but a COR may review contractor billings.¹⁹
- The DFARS states that the contract auditor is the authorized representative of the contracting officer for receiving and approving interim vouchers.²⁰
- The DCAA Contract Audit Manual states that, under cost reimbursement contracts, the DCAA is the authorized representative of the contracting officer to receive vouchers, recommend approval or rejection of vouchers, and suspend payment of questionable costs. The Manual also states that the DCAA determines whether the contractors claimed costs are allowable, allocable, and reasonable and comply with applicable cost limitations as stated in the contract or the FAR.²¹ However, the COR is expected to coordinate with the DCAA when any cost verification of data is necessary for support of COR surveillance responsibilities. The DCAA relies on CORs to notify it of any deficiencies observed during COR reviews.

¹⁸ Cost reimbursement contracts provide for payment of allowable incurred costs. These contracts establish a ceiling that the contractor may not exceed without the approval of the contracting officer.

¹⁹ DoD Regulation 7000.14-R, "DoD Financial Management Regulation," volume 10, chapter 10, "Payment Vouchers – Special Applications."

²⁰ DFARS Part 242, "Contract Administration and Audit Services," Subpart 242.8, "Disallowance of Costs," section 242.803, "Disallowing Costs After Incurrence."

²¹ DCAA "Contract Audit Manual," chapter 6, "Incurred Cost."

To ensure costs charged by the contractor were allowable, allocable, and reasonable, DTRA contracting officials reconciled contractor invoices with the disbursement data in the Invoice, Receipt, Acceptance, and Property Transfer (iRAPT) application and the Defense Agency Initiative system. The DTRA CORs also tracked the contract's value and funding levels, and proactively verified that contractor invoices were reasonable. The COR stated that he reviewed invoices for costs that were out of the ordinary, and he would advise the contracting officer if any issues were identified during his review. Therefore, the DTRA CORs conducted sufficient invoice reviews in accordance with the DoD Financial Management Regulation.

Verification of Cost Claimed by Contractor

We conducted an independent review of the invoices submitted by RTSC for task order 11. As of April 6, 2017, RTSC submitted 39 interim invoices, with a total value of \$20.5 million. To determine whether the costs claimed on the invoices were supported, we reviewed documentation for invoices BVN0014 and BVN0020, which have a total combined value of \$2.8 million. The contractor provided adequate documentation to support most of the costs on these invoices, including time sheets, journal entries, and receipts. However, the contractor was unable to provide adequate support for 1 of 66 line items, totaling \$18 of the \$8,380 reviewed cost. Specifically, we found an \$18 overpayment to an employee for hotel lodging. We reported this overpayment to RTSC for resolution on October 11, 2017. RTSC personnel stated that they would do a cost transfer to reimburse the Government for the \$18 overpayment.

DTRA Did Not Prepare a QASP

Although DFARS requires the contracting officer to prepare a QASP for service contracts, DTRA did not prepare a QASP to document the contractor work requiring surveillance, the method of surveillance, or the process used to review invoices. According to DFARS, the contracting officer needs to ensure that a QASP is prepared in conjunction with the preparation of the SOW, or the statement of objectives, for service contracts.²² In addition, DFARS states that, for contracts for services, the contracting officer will prepare a QASP to facilitate assessment of contractor performance.²³

DTRA did not prepare a QASP to document the contractor work requiring surveillance, the method of surveillance, or the process used to review invoices.

²² DFARS Part 237, "Service Contracting," Subpart 237.1, "Service Contracts – General," Section, 237.172, "Service Contracts Surveillance."

²³ DFARS Part 246, "Quality Assurance," Subpart 246.4, "Government Contract Quality Assurance," Section, 246.401, "General."

DTRA Did Not Believe That a QASP Was Required

The DTRA contracting officer stated that a QASP was not required because task order 11 included both goods and services. However, DFARS requires a QASP be prepared for service contracts and does not make a distinction for contracts that provide both goods and services. The DTRA contracting officer also stated that the task order had a robust quality management plan that included:

- weekly meetings with the contractor to monitor cost, schedule, and performance against the SOW;
- review of contractor invoices, which included cross-referencing them with the iRAPT application;
- quarterly project management reviews, which are documented reviews of the schedule, costs, earned value management; program risks and opportunities; work that has been completed over the past quarter, and the upcoming work to be completed over the next quarter;
- use of Army Test and Evaluation Command personnel to assist in design reviews and testing for equipment installations for Increment II;
- two full-time, dedicated project officers/CORs; and
- a full-time, dedicated advisory and assistance service employee who is a native speaker and is capable of receiving candid feedback from local nationals, Philippine stakeholders, and subcontractors.

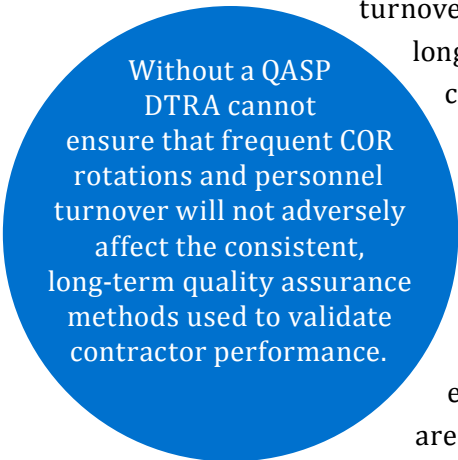
However, DTRA's quality management plan was not a written document identifying contract tasks, surveillance methods, and individuals responsible for surveillance. Instead, it was an informal list of quality assurance procedures. The COR stated that he was not aware of any formal, written quality management plans.

Developing a QASP is required for service contracts because it is the Government's responsibility to be objective, fair, and consistent in evaluating performance. The QASP defines the process that the Government uses to evaluate the contractor's execution of the SOW. The SOW links each performance objective to a method of inspection incorporated in the QASP. The QASP focuses on the level of performance required by the SOW, rather than on the methodology used by the contractor, to achieve that level of performance. Therefore, the DTRA Director, Acquisition, Finance, and Logistics, should establish implementing guidance to clarify that all contracts for services require a QASP, whether or not goods are also provided on the contract. Additionally, an adequate surveillance plan provides the foundation for comprehensive and systematic monitoring of contract performance and a standard against which actual surveillance efforts can be measured. Therefore, the DTRA Director, Acquisition, Finance, and Logistics, should develop and

implement a QASP for all ongoing service contracts and task orders to document the work requiring surveillance, the method of surveillance, and the process used to review invoices.

QASP Necessary for Consistent, Long-Term Quality Assurance

Without a QASP, DTRA cannot ensure that frequent COR rotations and personnel turnover will not adversely affect the consistent, long-term quality assurance methods used to validate contractor performance; or ensure that systematic quality assurance methods are in place to validate that contractor quality control efforts are timely, effective, and are delivering the results specified in the contract or task order. Both DTRA CORs are military officers on rotational assignments, which means neither COR was present for the entire task order period of performance. The CORs are located at Ft. Belvoir, and travel to the Philippines to conduct quality assurance reviews of the task order and monitor contractor performance. Having a QASP would establish a detailed, continuous quality assurance process for rotational CORs to survey, observe, test, sample, evaluate, and document contractor performance results to determine whether the contractor's performance meets the standards of the contract, and help ensure that a consistent high standard of contract quality assurance is maintained, if properly implemented.



Without a QASP DTRA cannot ensure that frequent COR rotations and personnel turnover will not adversely affect the consistent, long-term quality assurance methods used to validate contractor performance.

Recommendations and Management Comments Required

Recommendation 1

We recommend that the Defense Threat Reduction Agency Director, Acquisition, Finance, and Logistics:

- a. Establish implementing guidance to clarify that all contracts for services require a quality assurance surveillance plan, whether or not goods are also provided under the contract, in accordance with the Defense Federal Acquisition Regulation Supplement.**
- b. Develop and implement a quality assurance surveillance plan for all ongoing service contracts and task orders, whether or not goods are also provided under the contract, to document work requiring surveillance, the method of surveillance, and the process used to review invoices.**

Management Comments Required

The Defense Threat Reduction Agency Director, Acquisition, Finance, and Logistics, did not respond to the recommendations in the report. Therefore, the recommendations are unresolved. We request that the Director provide comments on the final report.

Appendix

Scope and Methodology

We conducted this performance audit from March 2017 through December 2017 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 objective.

We focused our audit on task order 11, awarded under the CTRIC II contract in support of the Philippines Maritime Proliferation Prevention Project. We selected task order 11 because, at the time of our audit, it was the only task order with ongoing work in the Pacific Command area of responsibility that we could observe to determine whether DTRA was adequately monitoring contractor performance.

We reviewed the following Federal and DoD regulations:

- FAR, Part 46, “Quality Assurance,” Subpart 46.4, “Government Contract Quality Assurance”;
- DFARS,
 - Part 237 “Service Contracting,” Subpart 237.1, “Service Contracts – General,” Section 237.172, “Service Contracts Surveillance”;
 - Part 242 “Contract Administration and Audit Services,” Subpart 242.8, “Disallowance of Costs,” Section 242.803, “Disallowing Costs After Incurrence”;
 - Part 246 “Quality Assurance,” Subpart 246.1, “General,” section 246.102, “Policy”; and
- Defense Contingency COR Handbook, version 2, September 2012.

To determine whether DTRA met these requirements and adequately monitored contractor performance, we conducted a site visit to the Philippines from June 26 through July 5, 2017. During our site visit, we visited the National Coast Watch Center in Manila; the National Coast Watch Station in Cebu; the National Coast Watch Substations in Dumaguete and Antique; and the National Coast Watch Remote Sensor Site on Apo Island. We selected these sites because they were in areas of the Philippines that did not have travel restrictions, and four of the sites had ongoing work for DTRA to inspect and monitor contractor performance, while the fifth site, the National Coast Watch Center in Manila, provided an example of a completed and operational location.

In addition, we reviewed:

- 17 DTRA trip reports dated between August 2015 and October 2017;
- site acceptance test reports prepared by DTRA advisory and assistance services and Army Test and Evaluation Command;
- contract data requirements list deliverables, including the sustainment and transition plan, MEL, EPP, and building design packages;
- training class agendas and rosters for classes held from February 2016 to June 2017;
- contractor status reviews, including a weekly operations review, dated July 12, 2017, and a quarterly project management review, dated March 2, 2017; and
- DTRA contractor performance assessment reports for task order 11 from June 2015 to May 2017.

We tested equipment items from the EPP to determine whether they had requirements supported by building design packages. Based on a sample size of 139 items provided by our Quantitative Methods Division, we sorted the population at each site by dollar value and then we selected the items with the highest dollar values. We also selected equipment items from the MEL to test for existence and completeness. For existence, based on the sample size provided by our Quantitative Methods Division on the EPP, we sorted the population at each site by dollar value and then we selected the highest dollar values. Because some sites did not have sufficient equipment items, we only reviewed 109 items. For completeness, we selected the same sample size used to test for existence, and we chose at least one equipment item in the same category as the equipment items tested for existence. Because some of the equipment items selected for the existence test did not have any additional items in the same category to test for completeness, we only reviewed 90 items.

To determine whether DTRA conducted sufficient invoice reviews we compared DTRA's invoice review procedures to the following DoD regulations.

- DoD Regulation 7000.14-R,"DoD Financial Management Regulation"
- DCAA Contract Audit Manual, September 2016

We also reviewed the COR invoice tracking spreadsheet used to reconcile contract costs. We conducted an independent evaluation of claimed cost to determine whether the amounts claimed were reasonable and supported by adequate documentation. We obtained a universe of 39 RTSC invoices, valued at \$20.5 million, dated from September 2015 to March 2017. With the assistance of our Quantitative Methods Division, we originally selected 10 invoices to review.

Because of the large number of line items on each invoice, we selected a subsample of 33 line items on each of the 10 invoices to request supporting documentation. Because of time and resource constraints, during the planning phase of the audit we selected the first two invoices in our sample of 10 to request supporting documentation. To determine whether the costs claimed on the invoices were supported, we reviewed time cards, travel vouchers, and RTSC cost allocation procedures. We did not request and review the remaining eight invoices from our original sample because we only found that 1 of 66 transactions, totaling \$18 of the \$8,380 reviewed costs, was not supported.

We met with DTRA officials at Ft. Belvoir and in the Philippines to determine DTRA's procedures for evaluating contractor performance and conducting invoice reviews of task order 11. We also met with Philippine leadership at the National Coast Watch Center in Manila to obtain the end-user perspective of the work performed under task order 11. In addition, we met with DCAA and RTSC personnel to obtain background information on the invoice review process and obtain supporting documentation for the invoice line items selected.

Use of Computer-Processed Data

We relied on computer-processed data from the Electronic Document Access (EDA) web-based system. The EDA provides secure online access, storage, and retrieval of contracts and contract modifications to authorized users throughout DoD. We used the EDA to obtain basic audit background, such as the task orders, and modifications related to the contract. To verify that the contract documentation obtained from the EDA was accurate, we provided the DTRA contracting officer with a spreadsheet for validation that listed all task orders, modifications, and dollar amounts issued on contract HDTRA1-11-D-0007. Except for a minor difference in the dollar value for one task order, we were able to validate the information we obtained by comparing it against the information kept by the contracting officer. Therefore, we determined the data from the EDA was sufficiently reliable for the purposes of obtaining background contract information.

We also relied on computer-processed data from the iRAPT application, which is a secure web-based system for electronic invoicing, receipt, and acceptance. We obtained from DCAA an iRAPT list of RTSC-submitted invoices, and we verified the data against interim invoices and supporting documentation provided by DTRA personnel. We determined that data obtained from iRAPT was accurate and sufficiently reliable to accomplish our audit objectives.

Use of Technical Assistance

Personnel from the DoD OIG, Quantitative Methods Division assisted us in selecting a non-statistical random sample of invoices and invoice transactions to reduce selection bias; however, the sample was not representative of the population from which it was selected. Therefore, the results were not projectable to the population.

Prior Coverage

During the last 5 years, no prior coverage was conducted on DTRA's contractor oversight and invoice reviews for goods and services provided under the CTR program.

Acronyms and Abbreviations

COR	Contracting Officer's Representative
CTR	Cooperative Threat Reduction
CTRIC II	Cooperative Threat Reduction Integrating Contract II
DCAA	Defense Contract Audit Agency
DFARS	Defense Federal Acquisition Regulation Supplement
DTRA	Defense Threat Reduction Agency
EDA	Electronic Document Access
EPP	Equipment Procurement Plan
FAR	Federal Acquisition Regulation
IDIQ	Indefinite Delivery/Indefinite Quantity
iRAPT	Invoice, Receipt, Acceptance, and Property Transfer
MEL	Master Equipment List
PPP	Proliferation Prevention Program
QASP	Quality Assurance Surveillance Plan
RTSC	Raytheon Technical Services Company
SOW	Statement of Work
WMD	Weapon of Mass Destruction



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