

Science and Technology Directorate Needs to Improve Its Contract Management Procedures





HIGHLIGHTS

Science and Technology Directorate Needs to Improve Its Contract Management Procedures

February 27, 2015

Why We Did This

In fiscal year 2013, the Science and Technology Directorate (S&T) administered about 370 contracts valued at around \$338 million. Developing and implementing standard practices for contract oversight and management, as well as for contract termination, within S&T, will ensure that S&T programs achieve stated program goals and objectives and terminations are in the Government's best interest.

What We Recommend

We recommend that S&T develop and implement written standard operating procedures for reviewing, documenting, and reporting on overall contract oversight and management, as well as for terminating a contract for convenience. We also recommend that S&T review its contract portfolio to ensure all contract files contain sufficient evidence to help management make well-informed decisions, including whether programs are meeting intended objectives.

For Further Information:

Contact our Office of Public Affairs at (202) 254-4100, or email us at DHS-OIG.OfficePublicAffairs@oig.dhs.gov

What We Found

We conducted an audit of S&T's award and management of its contract with NVS Technologies, Inc. Although S&T properly awarded the contract, we identified deficiencies with S&T's management of the contract. Specifically, program managers did not document contract oversight because S&T does not have adequate policies and procedures governing contract management. As a result, S&T may have wasted \$23 million in incurred costs plus additional cost associated with contract termination. If program performance is not adequately documented, S&T may also have difficulty making well-informed decisions on all its contracts.

S&T's Response

S&T concurred with all three recommendations, which when implemented, should enhance its program oversight.



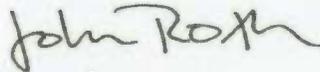
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Department of Homeland Security

Washington, DC 20528 / www.oig.dhs.gov

FEB 27 2015

TO: The Honorable Reginald Brothers
Under Secretary for Science and Technology Directorate

FROM: John Roth 
Inspector General

SUBJECT: *Science and Technology Directorate Needs to Improve its Contract Management Procedures*

In April 2010, the Science and Technology Directorate (S&T) awarded a contract to NVS Technologies, Inc. (NVS) to develop the Multi-Application Multiplex Technology Platform, a rapidly deployable, easy-to-use system to detect pathogens and biothreat agents for Government and private sector use. The contract was initially valued at about \$18 million, but S&T requested contract modifications that raised the ceiling to approximately \$30 million. As of November 2013, S&T spent about \$23 million on the contract. The contract was terminated on February 6, 2014. The former Deputy Under Secretary of S&T requested an audit because of concerns that inadequate contract management led to a reduction of contract tasks and deliverables as contract costs increased. This report presents the results of our audit, which we conducted to determine whether S&T properly awarded and managed the contract with NVS.

Although S&T properly awarded the contract with NVS, it did not properly manage the contract. As a result, S&T may have wasted \$23 million in incurred costs plus additional cost associated with the termination of the contract. If program performance is not adequately documented, S&T may also have difficulty making well-informed decisions on all its contracts. According to S&T, in fiscal year 2013, it administered around 370 contracts valued at about \$338 million.

During our audit, S&T personnel were generous with their time and expertise and provided requested documents quickly.

Results of Audit

S&T had inadequate policies and procedures for contract oversight by the program office. S&T program managers assigned to contracts are responsible for monitoring and documenting progress. Because employees assigned to NVS



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accepted other employment, program management responsibilities for the NVS contract changed several times. None of the program managers documented the review, acceptance, approval, or validation of the contractor's progress, meeting of milestones, completed tasks, deliverables, or discussions with NVS.

The lack of adequate policies and procedures enabled the former Acting Director of the Chemical and Biological Defense Division (Acting Director) to direct the termination of the contract against S&T subject matter experts' advice. Prior to this direction, in November 2013, the Acting Director told the contracting officer to issue NVS a stop work order "due to funding issues." About one week later, S&T lifted the stop work order to conduct an independent review, evaluate project performance, and determine future funding. However, S&T did not conduct the independent review and no additional funds were obligated.

In December 2013, the Acting Director presented a list of concerns about the NVS contract to the Acting Under Secretary of S&T. We did not identify evidence to substantiate any of the concerns. See appendix B for our analysis of the Acting Director's concerns.

In a January 2014 memorandum, the contracting officer documented that S&T's decision not to provide additional funding was "against the better judgment" of S&T subject matter experts. In February 2014, the Acting Director unilaterally directed the termination of the contract with NVS for convenience of the Government, against the recommendation of those experts.

The Acting Director issued a memorandum to the contracting office claiming the termination was in the best interest of the Government. The Acting Director acknowledged a continued need for a diagnostic device, but provided the following rationale for termination:

- the cost of continuing the NVS contract was not the best use of funds; and
- the Government could leverage matured commercial technology available in the marketplace.

The memorandum did not specify which other technologies were available to leverage and we found no other documentation supporting the Acting Director's decision. S&T subject matter experts monitored the development of other technologies and concluded none of the technologies met program goals. S&T subject matter experts recommended continuation of the contract. In our opinion, the Acting Director did not have sufficient information to request the termination. S&T needs to implement policy and procedures to ensure other



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individuals have the information necessary to make well-informed decisions in the future.

According to the termination clause included in the NVS contract, Federal Acquisition Regulation 52.249-6, the Government may terminate a contract for convenience only when the contracting officer determines it is in the Government's interest. The decision to stop funding the project forced the contracting officer to terminate the contract.

The termination occurred in part because S&T did not have adequate standards for documenting its review and oversight of contracts by the program office. S&T's contract files contained NVS-provided meeting minutes, progress reports showing milestones met, and records of S&T site visits. There was no evidence that S&T reviewed the documentation provided by NVS. This lack of documented review may have hindered management's ability to make an informed decision about the contract.

As recently as January 2014, an S&T program review revealed there was substantial data showing the NVS technology worked, and S&T personnel also acknowledged a continued need for the technology. Therefore, by terminating the NVS contract for convenience, S&T may have wasted \$23 million in incurred costs plus additional cost associated with the termination. Additionally, the lack of standard operating procedures to implement guidance in the *Project Management Guide* may hinder S&T's ability to make well-informed decisions on all its contracts.

Recommendations

We recommend that the Under Secretary for S&T:

1. Develop and implement written standard operating procedures for reviewing, documenting, and reporting on overall contract management to supplement its *Project Management Guide*.
2. Develop and implement specific written standard operating procedures within S&T for documenting recommendations for terminating contracts for convenience.
3. Review S&T's contract portfolio to ensure all contract files contain sufficient evidence of program review to allow management to make well-informed decisions, including whether programs are meeting intended objectives.



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Management Comments and OIG Analysis

S&T provided comments to the draft report and concurred with all three of our recommendations. A summary of the responses and our analysis follows. We have included a copy of the management comments in their entirety in appendix A.

Response to Recommendation #1: S&T concurred with the recommendation. S&T is updating its *Program Management Guide* and related processes as part of the new Apex programs and oversight model. The update will include additional documentation requirements for gate reviews on large projects. The estimated completion date is September 30, 2015.

OIG Analysis: S&T's response meets the intent of this recommendation. The recommendation is resolved and open. S&T provided and we reviewed its *Project Management Guide*. We will close this recommendation when S&T finalizes and implements the updated guide and related processes and submits a detailed summary of actions taken.

Response to Recommendation #2: S&T concurred with the recommendation. S&T's Finance and Budget Division will establish a written policy for leadership notification of intent to terminate a contract. The notification will require documentation that supports a decision to terminate. The estimated completion date is July 31, 2015.

OIG Analysis: S&T's response meets the intent of this recommendation. The recommendation is resolved and open. We will close this recommendation when S&T finalizes and implements policy for terminating contracts, including terminating for convenience, and submits a detailed summary of actions taken.

Response to Recommendation #3: S&T concurred with the recommendation. S&T believes that its projects are properly documented and allow it to make informed decisions. S&T management also conducts regular reviews of the progress of contract and manages budget change via a realignment process. S&T's Finance and Budget Division is implementing a tool that will capture all of the established metrics and performance for its projects. This tool will provide a more transparent monitoring process. The estimated completion date is September 30, 2015.

OIG Analysis: This recommendation is unresolved and open. OIG agrees that capturing metrics and increasing transparency can facilitate S&T's ability to make informed decisions. However, the program management office must also develop and implement policy to ensure the program manager has sufficient documentation in program management files. This recommendation will be resolved when S&T provides a concrete plan of action with milestones that



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include the program, budget, and contract offices. We will close the recommendation when S&T has finalized and implemented the actions discussed.

Audit Scope, Methodology, and Follow-up

We conducted this performance audit between March and September 2014 pursuant to the Inspector General Act of 1978, as amended, and according to 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 upon our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based upon our audit objective.

We interviewed S&T personnel and analyzed Multi-Application Multiplex Platform Technology project-related documentation, including contracting, contract administration, and paying office files (contract files). In addition, we reviewed the original contract and subsequent modifications to determine the contract requirements and contract costs. We also interviewed NVS management and reviewed progress reports and other documents created by NVS. We also consulted with the Recovery Accountability and Transparency Board for open source information related to this audit.

Office of Audits major contributors to this report are: Paul Wood, Audit Director; Andrew Smith, Audit Manager; Douglas Bozeman, Program Analyst; Karen Gardner, Auditor; Gloria Medina-Ortiz, Auditor; Kelly Herberger, Communications Analyst; and Modupe Ogunduyile, Independent Referencer.

Within 90 days of the date of this memorandum, please provide our office with a written response that includes your (1) agreement or disagreement, (2) corrective action plan, and (3) target completion date for each recommendation. Also, please include the contact information for responsible parties and any other supporting documentation necessary to inform us about the status of the recommendations. Please email a signed pdf copy of all responses and closeout request to OIGAuditsFollowup@oig.dhs.gov. Until we receive and evaluate your response, we will consider recommendations 1 and 2 open and resolved and recommendation 3 open and unresolved.

Please call me with any questions at (202) 254-4100, or your staff may contact Mark Bell, Assistant Inspector General for Audits at (202) 254-4100.



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Appendix A Management Comments to the Draft Report

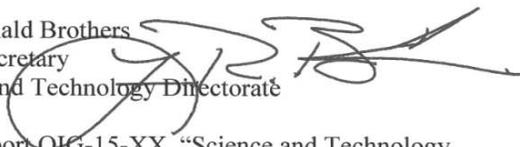
Under Secretary for Science and Technology
U.S. Department of Homeland Security
Washington, DC 20528



Homeland
Security

February 6, 2015

MEMORANDUM FOR: The Honorable John Roth
Inspector General
Office of Inspector General

FROM: Dr. Reginald Brothers
Under Secretary
Science and Technology Directorate 

SUBJECT: Draft Report OIG-15-XX, "Science and Technology
Directorate Needs to Improve its Contract Management
Procedures" (Project No. 14-109-AUD-S&T)

Thank you for the opportunity to review and comment on this draft report. The U.S. Department of Homeland Security's Science and Technology Directorate (S&T) appreciates the Office of the Inspector General's (OIG's) work in conducting this audit and issuing its report.

S&T is pleased to note the OIG found our contract with NVS Technologies, Inc. to develop the Multi-Application Multiplex Platform Technology (MAMPT) was properly awarded and that no issues were identified with the subsequent modifications. Termination of any contract is a unique event for S&T and this particular termination followed a non-traditional path. S&T contracts are routinely awarded and administered to their natural conclusion without difficulty.

S&T does not agree with OIG's conclusion that the Directorate may have difficulty making well-informed decisions on all its contracts. S&T follows the Federal Acquisition Regulation and the Homeland Security Acquisition Manual when making contract-related decisions. S&T is committed to good stewardship of its resources for the development of technologies and knowledge products that support the Homeland Security Enterprise.

The draft report contained three recommendations with which S&T concurs. Specifically, OIG recommended that the Under Secretary for S&T:

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Recommendation 1: Develop and implement written standard operating procedures for reviewing, documenting, and reporting on overall contract management that supplement its Program Management Guide.

Response: Concur. S&T has long-standing policies in place for program management and all program managers are trained. S&T is in the process of updating the S&T Program Management Guide and related processes as part of the implementation of the new Apex programs and oversight model; this will include additional documentation requirements for phase gate reviews on large projects such as the MAMPT program. Estimated Completion Date (ECD): September 30, 2015.

Recommendation 2: Develop and implement specific written standard operating procedures for terminating a contract for convenience.

Response: Concur. There are existing processes for terminating contracts codified in the Federal Acquisition Regulation (FAR) and the Department of Homeland Security Acquisition Manual (HSAM) that address the actions that need to be taken for a Contracting Officer to properly terminate a contract. S&T's Finance and Budget Division will establish a written policy for leadership notification of the intent to terminate a contract. The notification will require documentation that supports the decision to terminate the contract in accordance with the FAR, HSAM and Contracting Officer's Representative Essential Element Guide. ECD: July 31, 2015.

Recommendation 3: Review S&T's contract portfolio to ensure all contract files contain sufficient evidence of program review to allow management to make well-informed decisions, including whether programs are meeting intended objectives.

Response: Concur. S&T believes its projects are currently properly documented to ensure it makes well informed decisions. However, S&T's Finance and Budget Division is in the process of implementing a tool that will capture all of the established metrics and performance objectives for its projects; this capability will provide more transparent monitoring of a program's progress and readily highlight when there may be issues. Additionally, S&T already has several processes in place that provide a transparent review of the research and development investments including an annual portfolio review and a rank-order prioritization budgeting exercise. S&T management also conducts regular reviews of the progress of contracts and manages budget change via a realignment process. ECD: September 30, 2015

Again, thank you for the opportunity to review and comment on this draft report. Technical comments were previously provided under separate cover. Please feel free to contact me if you have any questions. We look forward to working with you in the future.



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Appendix B

Summary of Acting Director of the Chemical and Biological Defense Division’s Concerns and OIG Analysis

Concerns – Acting Director	Analysis – OIG
S&T had reduced contract requirements and modified the contract to eliminate the requirement to deliver the prototype.	S&T did not reduce contract requirements. Modification 13 required NVS to “build units and consumables for Government testing” and “test prototype systems in-house.”
Very few deliverables provided insight into the progress of the project to justify the amount S&T had expended on the contract.	S&T received monthly progress reports from NVS and subject matter experts conducted site visits to review progress.
There appeared to be “an unbudgeted cost of about \$19 million” to complete development of the diagnostic device.	We found no evidence of unbudgeted costs. S&T raised the contract ceiling to meet additional requirements.
There were few indicators of NVS’ progress toward commercializing the diagnostic device.	Commercializing the device was not in the scope of this contract. However, NVS did provide a Commercialization Plan.
NVS’ progress reports did not justify S&T’s expenditures for the project.	NVS’ monthly reports showed progress. S&T program managers accepted the expenditures by approving the invoices.
The Acting Director was receiving “mixed feedback” on the NVS project.	S&T personnel actively involved in the project gave positive input about NVS’ progress. Negative feedback came from contracted personnel unrelated to the program.
Data rights and intellectual property markings limited the Government’s ability to share the information within the Government.	Data rights and intellectual property markings allowed the sharing of information with the consent of both S&T and NVS. This is in accordance with requirements for the protection of trade secrets and commercial information in U.S. laws and regulations.

Source: OIG analysis



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Appendix C **Report Distribution**

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