Report No. DoDIG-2012-081 April 27, 2012

Inspector General
United States Department of Defense

Navy Organic Airborne and Surface Influence Sweep Program Needs Defense Contract Management Agency Support

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Acronyms and Abbreviations

DCMA	Defense Contract Management Agency
DFARS	Defense Federal Acquisition Regulation Supplement
EVM	Earned Value Management
FAR	Federal Acquisition Regulation
MOA	Memorandum of Agreement
OASIS	Organic Airborne and Surface Influence Sweep
PEO LCS	Program Executive Officer (Littoral Combat Ships)

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

April 27, 2012

MEMORANDUM FOR UNDER SECRETARY OF DEFENSE FOR ACQUISITION, TECHNOLOGY, AND LOGISTICS
DIRECTOR, DEFENSE CONTRACT MANAGEMENT AGENCY
NAVAL INSPECTOR GENERAL

SUBJECT: Navy Organic Airborne and Surface Influence Sweep Program Needs Defense Contract Management Agency Support (Report No. DoDIG-2012-081)

We are providing this report for your information and use. This report is the first of two audit reports addressing the Navy's acquisition of the Organic Airborne and Surface Influence Sweep. The Defense Contract Management Agency and the Navy did not coordinate to effectively support the Organic Airborne and Surface Influence Sweep development contract from February 2008 to April 2011. We considered management comments on a draft of this report in preparing the final report.

Comments on the draft report of this report conformed to the requirements of DoD Directive 7650.3. Therefore, we do not require any additional comments.

We appreciate the courtesies extended to the staff. Please direct questions to me at (703) 604-9077 (DSN 664-9077).

Jacqueline L. Wicecarver
Jacqueline L. Wicecarver
Assistant Inspector General
Acquisition and Contract Management

Results in Brief: Navy Organic Airborne and Surface Influence Sweep Program Needs Defense Contract Management Agency Support

What We Did

This report is the first of two audit reports addressing the Navy's acquisition of the Organic Airborne and Surface Influence Sweep (OASIS). We determined whether the Defense Contract Management Agency (DCMA) support of the OASIS development contract was effective.

What We Found

DCMA and the Navy's internal controls were ineffective. We identified internal control weaknesses in the Navy's management of the OASIS contract. DCMA officials and the Program Manager, Mine Warfare (Program Manager), did not effectively transition the program integrator and program support team requirements for the OASIS contract in February 2008. This occurred because DCMA did not have policies and procedures for the transition of program support requirements when the contractor changed geographic locations and there was a breakdown in communication within DCMA. As a result, the Program Manager did not benefit from assessments of cost, schedule, and technical performance that DCMA could provide to help meet program goals during the engineering and manufacturing phase.

The Program Manager did not request DCMA program management support after the memorandum of agreement (MOA) expired. This occurred because the Program Manager considered the expired agreement valid and was not aware of the requirement to annually update the MOA. Additionally, the Program Manager did not identify program data analyses DCMA could have provided before tasking a support contractor. This occurred because the Program Manager believed the OASIS Program primarily needed technical oversight during the Engineering and Manufacturing Development Phase. As a result, the Program Manager expended funds over a 38-month period for services from a support contractor and did not obtain earned value management analysis, monthly progress reports, or monthly program assessments from either DCMA or the support contractor.

Management Actions

As a result of our audit, the Director, DCMA Orlando, took action to assign a program integrator and program support team to the OASIS Program. Further, the acting Executive Director for DCMA Engineering and Analysis modified DCMA policy to provide mandatory direction for transitioning program support requirements between contract management offices. Additionally, the Director and the Program Manager established a MOA for supporting the OASIS Program.

What We Recommend

We recommend that the Director, DCMA validate ITT Exelis, Inc. earned value management system and update the Major Program Support Instruction to include guidance on transitioning program support between DCMA offices. Also, we recommend the Program Executive Officer (Littoral Combat Ships) (PEO LCS) perform a review of the other programs in the Littoral Combat Ship portfolio to determine whether program managers are maximizing the use of DCMA services.

Management Comments and Our Response

The DCMA, Executive Director, Engineering and Analysis Directorate and the Navy Program Executive Officer, Littoral Combat Ships, agreed with the recommendations and their comments were responsive. Please see the recommendations table on the next page.

Recommendations Table

Management	Recommendations Requiring Comment	No Additional Comments Required
Director, Defense Contract Management Agency		A.1 and A.2
Program Executive Officer (Littoral Combat Ships)		B.1

Table of Contents

Introduction 1

Objective 1
Background 1
Contract Management Guidance 3
Review of Internal Controls 5

Finding A. The Navy Needs to Engage DCMA for Support 6

Program Integrator and Program Support Team Were Not Assigned 6
Responsibility Transferred Without Confirmation That Support Would Continue 6
Program Manager Did Not Benefit from DCMA's Independent Assessments 7
Program Manager Could Have Used DCMA Support in Evaluating EVM Data to Mitigate Risks to the Program 7
DCMA Assigned Program Integrator and Support Team and Revised Major Program Support Instruction 8
Management Comments on the Finding and Our Response 9
Recommendations, Management Comments, and Our Response 10

Finding B. The Navy Needs to Effectively Use Program Support Resources 11

Expired Memorandum of Agreement 11
Work Allocated to Support Contractor Without Requesting DCMA Support 12
Reliance on Support Contractor 13
DCMA and Program Manager Established a New MOA 15
Management Comments on the Finding and Our Response 16
Recommendation, Management Comments, and Our Response 16

Appendices

A. Scope and Methodology 17
B. Milestone C Decision Delayed 18

Management Comments

Defense Contract Management Agency 20
Department of the Navy 22

Introduction

Objective

This report is the first of two reports addressing the acquisition of the Organic Airborne and Surface Influence Sweep (OASIS). The overall audit objective was to determine whether the Navy was effectively preparing the program for the low-rate initial production phase of the acquisition process. In this report, we determined whether the Defense Contract Management Agency (DCMA) support of the OASIS development contract was effective. In the second report, we will determine whether the Navy has effectively established system requirements and planned testing to support procuring the OASIS. See Appendix A for a discussion of the audit scope and methodology.

Background

The OASIS is an Acquisition Category II major defense system that is in the engineering and manufacturing development phase of the acquisition process. The Navy established OASIS as an acquisition program in April 2002. As of January 2012, OASIS Program management spent $111.6 million in research, development, test, and evaluation funds. The Navy is developing OASIS in preparation for the low-rate initial production decision planned for second quarter FY 2013.

Funding and Contracting Data

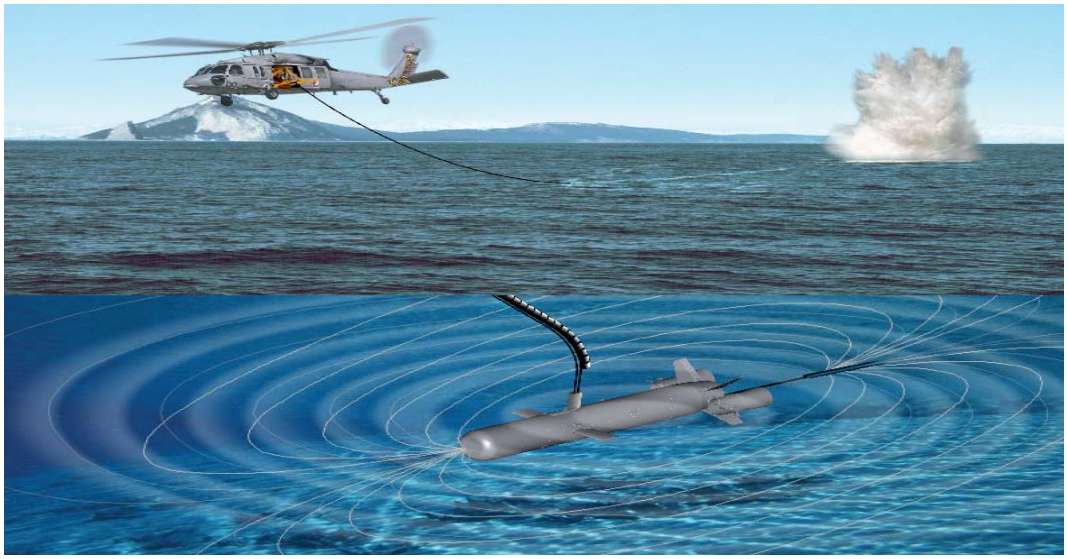
As of January 2012, the program's budget to develop and test the system totaled $135.4 million in research, development, test, and evaluation funds, including three OASIS engineering development models. On April 26, 2002, the Navy awarded a $25 million contract to develop OASIS to EDO (now known as ITT Exelis Inc.). As of November 2011, the contract was valued at $55.6 million.

Mission and System Description

The OASIS is a minesweeping system, which will be towed by the MH-60S Multi-Mission Combat Support Helicopter (the MH-60S helicopter), deployed from the Littoral Combat Ship. When fielded, the OASIS will generate and impart underwater magnetic and acoustic signature fields to provide a high-speed influence minesweeping[1] capability. The Navy will use OASIS when mine hunting is not feasible, where mines are difficult to detect, and where avoidance of mined areas is not an option. The Navy plans to install the Airborne Mine Countermeasures Mission Kit to integrate OASIS hardware and software with the MH-60S helicopter.

[1] Influence minesweeping is the ability of the OASIS to mimic a ship's magnetic or acoustic signature, which then causes mines to explode.

Figure. MH-60S Helicopter Towing the OASIS



Source: Mine Warfare Program Office

Program Management

The Program Executive Officer (Littoral Combat Ships) (PEO LCS) is responsible for acquiring and maintaining the littoral (near shore) mission capabilities of the Littoral Combat Ship class. PEO LCS, the Mine Warfare Program Office, is responsible for acquiring mine countermeasure capabilities, such as the OASIS, for the Littoral Combat Ship. The Navy Acquisition Executive is the milestone decision authority for the OASIS low-rate initial production decision.

DCMA

DCMA is the DoD contract support agency responsible for ensuring the integrity of contractual processes and providing a broad range of contract-procurement management services for America's warfighter. Specifically, DCMA provides quality assurance; cost, schedule, and supply chain predictability analysis; and contract administration, which assists its partners, including acquisition program managers, in achieving contract objectives. Before contract award, DCMA provides advice and services to help construct effective solicitations, identify potential risks, select the most capable contractors, and write contracts to meet the needs of DCMA customers in Federal, DoD, and allied Government agencies. After contract award, DCMA monitors contractor performance and management systems to ensure that cost, product performance, and delivery schedules are in compliance with the terms and conditions of the contract.

For contract N00024-02-C-6316 (the OASIS contract), three different DCMA offices had oversight responsibilities at various times after contract award:

- DCMA Garden City, in Garden City, New York (April 2002 to February 2008);
- DCMA Huntsville, in Huntsville, Alabama (February 2008 to June 2010); and
- DCMA Orlando, in Orlando, Florida (June 2010 to present).

As discussed in the following sections, DCMA assigns program integrators and program support teams to help and support acquisition program managers in achieving program goals.

Program Integrator Roles and Responsibilities

The program integrator is the leader of the multi-functional program support team and is responsible for coordinating with the program support team functional supervisors to ensure that the team functions as a cohesive unit able to provide timely insights and recommendations to the Program Management Office and the DCMA Contract Management Office. The program integrator is also responsible for:

- coordinating the creation and updates to the program support plan;
- ensuring that the program support plan compliments and references the functional surveillance plans, as specified by the individual technical instructions;
- monitoring implementation of the program support plan;
- creating and revising the memorandum of agreement (MOA) with the program management office; and
- providing monthly Program Assessment Reports to the program management office.

Program Support Team Roles and Responsibilities

The program support team helps the program integrator in implementing the surveillance duties specified in the program support plan. In coordination with the program integrator, the program support team provides required support for program milestone events and major program meetings. The team members routinely communicate in a timely manner with their respective counterparts at the program management office and with the program integrator regarding program status or any notable issues or concerns. The program support team reviews contractor data at least monthly and provides summarized analyses, recommendations, and potential program impacts and evaluations to the program integrator. The program support team considers all factors affecting the customer's goals, program milestones, and final program completion date in performing program analyses.

Contract Management Guidance

The Federal Acquisition Regulation; Under Secretary of Defense for Acquisition, Technology, and Logistics policy; and DCMA policy and guidance define the program support DCMA provides to program managers.

Federal Acquisition Regulation

Federal Acquisition Regulation (FAR) 42.302, "Contract Administration Functions," specifies the contract administration functions that Federal organizations normally delegate to contract administration offices. The contract administration functions include reporting program status; assessing contractor compliance with contract terms; surveilling contractor engineering efforts and management systems; and reviewing and evaluating the contractor's logistic support, maintenance, and modification programs.

Under Secretary Defense for Acquisition, Technology, and Logistics Policy

Under Secretary of Defense for Acquisition, Technology, and Logistics memorandum "Defense Contract Management Agency's Earned Value Management [EVM] Roles and Responsibilities," April 23, 2007, designates DCMA as the DoD Executive Agency for EVM Systems. DCMA is responsible for ensuring consistent application and interpretation of the EVM System guidelines and for conducting all contractor management system reviews to verify initial and ongoing compliance. For contracts exceeding a $50 million threshold, Defense Federal Acquisition Regulation Supplement (DFARS) Section 252.234-7002, "Earned Value Management System," allows DCMA to validate the contractor's EVM System.

DCMA Policy and Guidance

The DCMA Major Program Support Instruction, November 2010, (the DCMA Support Instruction) provides policy and guidance for performing the contract management functions listed in the FAR. Specifically, the Instruction provides the DCMA staff with direction when supporting the program, product and project offices regarding program reviews, program status, program performance and actual or anticipated program problems, including direction to establish:

- a MOA with the program manager that focuses on desired program outcomes,
- a program support plan that details the tasks needed to meet the provisions of the MOA, and
- a program integrator to manage the program support team and perform the tasks documented in the program support plan.

In addition, the Instruction provides policy and guidance on the program integrator and program support team responsibilities for monthly program assessment reports, cost, schedule, and technical analysis; EVM assessments; and integrated baseline reviews of major programs.

Independent Monthly Program Assessments

As provided in the DCMA Support Instruction, DCMA supports program managers through the Program Assessment Report, a monthly independent assessment of the contractor's cost and schedule performance. The Program Assessment Report helps program managers to either validate the contractor's assessments or to highlight divergence; and therefore, contribute to successful program execution. The Program Assessment Report Template in the DCMA Support Instruction states that the program manager would have received the following information from the cost portion of the assessment:

- an independent estimate-at-completion, which assesses the accuracy of the contractor's estimate-at-completion and is based on both current and predicted cost performance;
- insight into the execution of programs within approved resources, based on the cost and schedule performance status of the program's major contracts and the probable effects of those contracts on cost estimates for future effort on the program;

- the status of the program's design-to-cost, value engineering,[2] and other cost reduction initiatives, as applicable; and
- an evaluation of the validity of the contractor's stated root causes for cost trends.

Additionally, the schedule portion of DCMA's monthly assessment would have provided the program manager with:

- a schedule assessment to determine how the program is progressing against scheduled milestones and delivery dates;
- an analysis of schedule variances, including an evaluation of the validity of the contractor's stated root causes; and
- the impact schedule variations had on major program decision points and operational capability dates.

Assistance in Performing Integrated Baseline Reviews

The DCMA Support Instruction states that, at the program management office's request, DCMA will provide support for program integrated baseline reviews. An integrated baseline review, as defined in the Instruction, is a joint (Government and contractor) assessment of the performance measurement baseline for a program. The review is required not later than 180 days after contract award and also after the exercise of major contract options or the incorporation of major modifications.

Review of Internal Controls

DoD Instruction 5010.40, "Managers' Internal Control Program (MICP) Procedures," July 29, 2010, requires DoD organizations to implement a system of internal controls that provides reasonable assurance that programs are operating as intended and to evaluate the effectiveness of the controls. We identified internal control weaknesses in the Navy's management of the OASIS contract. Specifically, we determined DCMA officials and the Program Manager, Mine Warfare (Program Manager), did not effectively transition the program integrator and a program support team for the OASIS contract in February 2008. Additionally, the Program Manager did not request DCMA program management support after the MOA with DCMA expired. We also determined that the Program Manager relied on a support contractor to provide data analysis that DCMA could have provided at no cost to the program. We will provide a copy of the report to the senior official responsible for internal controls in DCMA and the Department of the Navy.

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[2] Value engineering is a functional analysis methodology that identifies and selects the best value alternative for designs, materials, processes, systems, and program documentation.

Finding A. The Navy Needs to Engage DCMA for Support

DCMA officials and the Program Manager[3] did not effectively transition the program integrator and program support team for the OASIS contract in February 2008. This occurred because DCMA did not have policies and procedures for transitioning program support requirements when the contractor changed geographic locations. In addition, DCMA officials from various locations did not communicate when transferring responsibilities between offices. As a result, the Program Manager did not benefit from assessments of cost, schedule, and technical performance that DCMA could provide to help meet program goals during the engineering and manufacturing phase.

Program Integrator and Program Support Team Were Not Assigned

Since February 2008, DCMA has not included a program integrator or a program support team for the OASIS Program. The DCMA Support Instruction requires the contract management office to appoint a program integrator and program support team for all DoD Acquisition Category I and II programs. On February 26, 2008, DCMA Garden City transferred the OASIS contract administration responsibilities to DCMA Huntsville after the prime contractor moved from Amityville, New York, to Panama City, Florida. The administrative contracting officer at DCMA Huntsville stated that she thought that the OASIS contract was sent to her for close out because there were minimal unliquidated obligation funds on the contract. Subsequently, DCMA Huntsville transferred OASIS contract administration responsibilities to DCMA Orlando on June 5, 2010, due to an organizational realignment. When asked, DCMA could not provide documentation showing communication between the two DCMA offices. According to the Director DCMA, Orlando, he did not assign a program integrator and a program support team to the OASIS Program because of a breakdown in communication between DCMA offices, which resulted in him not knowing that he was responsible for the OASIS Program until April 2011.

Responsibility Transferred Without Confirmation That Support Would Continue

DCMA Garden City staff correctly prepared the contract amendments to transfer responsibility to another office, but they did not follow up with DCMA Huntsville staff to ensure that DCMA program support continued. In February 2008, the prime contractor moved from Amityville, New York, to Panama City, Florida. On February 26, 2008, DCMA Garden City amended contract N00024-02-C-6316, transferring responsibility for supporting OASIS from DCMA Garden City to DCMA Huntsville. The administrative contracting officer at DCMA Huntsville stated that she did not have contact with anyone regarding the contract nor had she taken any action because she thought the contract was ready to be closed. This breakdown in communication occurred because the DCMA Support Instruction did not have a documented process, including communication requirements for transitioning program support requirements between DCMA contract management offices.

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[3] The Program Manager at the time of our audit assumed the role in March 2009.

On June 5, 2010, DCMA Huntsville amended the contract to transfer responsibility to DCMA Orlando due to an internal DCMA organizational realignment. In a meeting on April 26, 2011, the Director, DCMA Orlando, stated that his office was unaware of the transfer of responsibility until we contacted DCMA in April 2011s because of a breakdown in communication between DCMA offices.

Program Manager Did Not Benefit From DCMA's Independent Assessments

For more than 3 years, the Program Manager did not benefit from DCMA's independent assessments of cost, schedule, and technical performance to validate the contractor's assessment or highlight divergence and contribute to successful program execution. Additionally, DCMA could have provided the Program Manager with program assessment reports, an EVM specialist to review the contractors' EVM data, or representation to support the Integrated Baseline Review in September 2008. The DCMA Support Instruction directs DCMA to provide its program management customers timely, value-added analysis, insight, and action to prevent, or identify and resolve, existing and potential program problems throughout the life cycle of the program.

DCMA program integrators and program support teams have extensive knowledge and insight to share with program managers on program cost, schedule, and performance. Further, due to DCMA's nearness to the contractor's facilities, the program integrator and program support team play an integral role in supporting the Program Manager's decision making. Without a program integrator, program support team, and a current agreement to focus DCMA efforts, the Program Manager did not benefit from the value-added support and resources that DCMA could have provided to help meet program goals during the OASIS engineering and manufacturing phase.

Program Manager Could Have Used DCMA Support in Evaluating EVM Data to Mitigate Risks to the Program

The Program Manager could have used DCMA support to evaluate the EVM[4] data to help mitigate cost increases of $10.4 million or 23 percent between April 2008 through November 2011. Under Secretary of Defense for Acquisition, Technology, and Logistics memorandum, "Earned Value Management Requirements and Reporting," August 27, 2008, states that EVM was one of DoD's and industry's most useful program management tools, providing early warning of potential contract cost and schedule performance problems. In April 2008, the OASIS contract was valued at $45.2 million, as of February 2010, the value had increased to $50.5 million. On November 21, 2011, 21 months later, the contract had increased again approximately $5 million to $55.6 million. In less than 4 years, the contract increased approximately $10.4 million (23 percent). The table in Appendix B shows the price increases over the life of the OASIS contract.

> *In less than 4 years, the contract increased approximately $10.4 million (23 percent).*

[4] EVM provides a disciplined approach to managing projects successfully through the use of an integrated system to plan and control authorized work to achieve cost, schedule, and performance objectives.

The Program Manager did not benefit from meaningful insights from DCMA to balance program requirements and constraints against cost, schedule, and technical risk. Effective risk management requires a stable and recognized baseline from which to mitigate, and manage program risk. Two goals of the September 2008 OASIS integrated baseline review were to foster the use of the EVM System as a means of communicating the cost implications of technical and schedule problems and successes, and provide confidence in the validity of contract cost and schedule reporting. According to the Assistant Program Manager for OASIS, the integrated baseline review did result in a draft revised baseline for the program. The integrated baseline review briefing charts cited the "lack of an EVM System" as a critical risk to the program that needed to be addressed immediately. In an October 2011 program assessment report, the newly assigned DCMA program integrator and program support team conducted an independent assessment of the OASIS Program and rated the overall program status as high risk. Specifically, the team reported that the OASIS contract was 108 percent over budget and the amount of work accomplished (96.9 percent) was less than the amount of work scheduled (99.5 percent). The team also reported that cost, schedule, and technical areas were all high risk. Additionally, the assessment stated that the OASIS contract was double the original budget, years behind schedule, operating with an outdated baseline, and in need of a well-defined way forward.

DCMA Assigned Program Integrator and Support Team and Revised Major Program Support Instruction

As a result of our audit, on April 22, 2011, the Director, DCMA Orlando, assigned a program integrator and a six-person program support team that included an engineer, an EVM System specialist, two quality assurance specialists, and two administrative contacting officers to the OASIS Program. Since being assigned to the OASIS Program, the program integrator and the program support team have regularly attended meetings, visited the prime contractor facility in Panama City, Florida, and issued five Program Assessment Reports to the Program Manager. Program Assessment Reports are independent DCMA assessments of contractor performance with details including actual costs versus budgeted costs, performance schedule, and the way forward. On February 10, 2012, the Assistant Program Manager for OASIS stated that he reviews the Program Assessments Reports to help identify any issues with the OASIS contract. The reports discuss the results of quality assurance activity, including inspections and drawing reviews, as well as DCMA's review of technical items and required tasks.

In addition, DCMA Orlando staff reviewed the OASIS contract and recommended adding one FAR clause and two DFARS clauses. The Program Manager worked with the Naval Sea Systems Command Procuring Contracting Officer to modify the OASIS contract (Modification P00068, August 17, 2011) to include the following clauses:

- DFARS 252.234-7002, "Earned Value Management System," will allow DCMA to validate the contractor's EVM System now that the OASIS contract has exceeded the $50 million threshold;
- DFARS 252.228-7001, "Ground and Flight Risk," addresses the allocation of liability between the Government and contractor; and

- FAR 52.246-11, Higher Level Contract Quality," which specifies high-level quality requirements for Quality Management Systems – Requirements International Organization for Standardization ISO 9001:2008 – Quality Management.

Also, the Program Manager worked with Naval Sea Systems Command Procuring Contracting Officer to modify the OASIS contract (modification P00069, September 12, 2011) to add organizational categories to the OASIS contract performance report format to allow for more complete EVM analysis of the contractor's performance data. According to the Director, DCMA Orlando, DCMA had never validated the prime contractor's EVM System to ensure compliance with EVM System guidelines. On December 14, 2011, the DCMA Operations Directorate, EVM Implementation Division, announced plans to conduct an EVM System validation review in accordance with the OASIS EVM System contract requirements in February 2012. However, ITT Exelis, Inc. requested DCMA delay reviewing the EVM System until April 2012 after a new EVM System baseline is developed. Subsequently, the Program Manager suspended funding for the OASIS Program starting after March 31, 2012; therefore, DCMA postponed the EVM System validation.

On September 13, 2011, the Director DCMA Orlando, stated that the DCMA Chief Operating Officer approved an additional personnel resource to support the OASIS contract. DCMA also changed its policy as a result of our audit that will ensure that all Acquisition Category I and II programs receive continuous DCMA support. Specifically, on October 11, 2011, the DCMA Acting Executive Director, Engineering and Analysis Directorate, issued DCMA Memorandum #11-388 "Tasking: Mandatory Instruction for Transitioning Program Responsibilities Between CMOs [Contract Management Offices]." This memorandum provides mandatory interim direction to contract management offices for transitioning prime program support requirements between offices. On December 5, 2011, the DCMA Director, Joint Non-DoD Service Portfolio Division, Portfolio Management and Integration, stated that she expected that DCMA would begin the final coordination process in January 2012 to include guidance in a DCMA instruction relating to transitioning program responsibilities between contract management offices. As of March 20, 2012, DCMA was still in the coordination process and expects to complete the coordination process in May 2012.

Management Comments on the Finding and Our Response

Department of Navy Comments

The Program Executive Officer, Littoral Combat Ships, disagreed with the draft report statement that the Program Manager could have used EVM data to mitigate risk to the OASIS Program, stating that this implies EVM data were not used on the OASIS Program. The Program Executive Officer than stated that EVM data were presented and reviewed during program quarterly execution reviews with the Program Manager and PEO LCS. He explained that the PEO LCS spent considerable time questioning OASIS EVM data to better understand and identify program risk during these quarterly execution reviews.

Our Response

We clarified the report to more clearly state that the Program Manager could have used DCMA support in evaluating the EVM data to help mitigate cost increases of $10.4 million or 23 percent between April 2008 through November 2011.

Recommendations, Management Comments, and Our Response

A. We recommend the Director, Defense Contract Management Agency:

1. Validate ITT Exelis, Inc. earned value management system in accordance with Defense Federal Acquisition Regulation Supplement clause 252.234-7002, "Earned Value Management System," and

Defense Contract Management Agency Comments

The Executive Director, Engineering and Analysis Directorate, responded for the Director, DCMA. The Executive Director agreed and stated that the EVM Implementation Division, DCMA Operations Directorate, scheduled validation of the contractor's EVM System to begin in April 2012, but the Program Manager, Mine Warfare, suspended funding for the OASIS Program starting after March 31, 2012, for the remainder of FY 2012. The Executive Director stated that as a result of the suspension of funding, DCMA postponed the planned EVM System validation process until DCMA has been notified that funding has been restored.

Our Response

The Executive Director comments were responsive. No further comments are required.

2. Complete update of the Major Program Support Instruction to include guidance on transitioning program responsibilities between contract management offices.

Defense Contract Management Agency Comments

The Executive Director agreed and stated that DCMA issued Action/Tasking Memo No. 11-388 on October 11, 2011, which details requirements when the responsibility for administering a contract associated with a major program is transferred between contract management offices due to a change in the contractor location or change in the DCMA organizational alignment. The Executive Director further stated that the specifics of the memorandum were added as paragraph nine to the revision of the Major Program Support Instruction, which is currently in the DCMA coordination process and that DCMA expects to complete the coordination process in May 2012.

Our Response

The Executive Director comments were responsive. No further comments are required.

Finding B. The Navy Needs to Effectively Use Program Support Resources

The Program Manager did not request DCMA program management support after the MOA with DCMA expired because the Program Manager considered the expired agreement still valid and was not aware of the requirement to review the MOA annually.

Additionally, the Program Manager relied on a support contractor to provide data analysis that DCMA could have provided at no cost to the OASIS Program. Specifically, the Program Manager did not identify program data analyses DCMA could have provided before tasking the support contractor because the Program Manager minimized the need for DCMA support for OASIS during the Engineering and Manufacturing Development Phase of the acquisition process.

As a result, the Program Manager potentially expended funds[5] over a 38-month period for services from a support contractor that DCMA could have performed. Additionally, the Program Manager did not obtain monthly progress reports or monthly program assessments from either DCMA or the support contractor.

Expired Memorandum of Agreement

The Program Manager and DCMA officials did not take action to renew the MOA to continue DCMA support of the OASIS Program when the MOA between DCMA Garden City and Program Executive Officer, Mine Warfare, expired in January 2008. The DCMA Support Instruction states that the program integrator and program support team must review MOAs annually and update as needed, in coordination with the program office. Therefore, when the MOA for OASIS expired in January 2008 and when the administrative responsibilities transferred from DCMA Garden City to DCMA Huntsville in February 2008, the current Program Manager, or her predecessor, should have contacted the new DCMA office to establish a new MOA or update the existing MOA to ensure continuous support of the OASIS Program. The intent of the MOA is not to restate FAR 42.302 duties; rather, it is an opportunity for the contract management office and the program management office to agree on the support DCMA will provide to eliminate redundancy of effort and establish contract oversight needs.

The Program Manager did not request DCMA program management support after the OASIS MOA had expired because program office staff considered the expired agreement still valid. Specifically, on August 19, 2011, we received an e-mail from the Assistant Program Manager stating that "the 2005 MOA between the Program Manager and DCMA was considered active until it was superseded by the recently signed MOA in July 2011." However, the December 2005 MOA states that it would remain in effect only until January 31, 2008.

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[5] We were unable to determine the specific amount of costs associated with tasks DCMA could have performed, rather than the support contractor, because the statements of work and the way the costs were allocated were general and vague.

Therefore, the Program Manager, upon taking office in March 2009, should have reviewed the support provided to the OASIS Program, noted that the MOA was expired, and then requested DCMA support and signed a new MOA.

Work Allocated to Support Contractor Without Requesting DCMA Support

When assessing resources to obtain the data analysis needed to support planning and execution of the OASIS Program, the Program Manager did not request DCMA support. Instead, the Program Manager relied on a support contractor to provide data analysis that DCMA could have provided at no cost to the OASIS Program. Specifically, the Program Manager did not identify the program data analyses that DCMA could have provided before tasking the support contractor. We performed a comparison of the program support tasks DCMA normally performs for program managers, as defined in "DCMA Major Program Support" and "Earned Valued Management System (EVMS) System-Level Surveillance" instructions, and the support services included in the statement of work for support contract N00024-10-C-6309. Table 1 shows the results of our comparison. The Program Manager stated that the support contractor was tasked to manage data and assemble briefs not to perform analyses DCMA could have provided. However, the task descriptions we obtained from the DCMA Instructions and from the statement of work for the support contract were very similar and included task areas that would involve data analysis.

Table 1. Program Support Tasks

Tasking	DCMA[1]	Support Contract[2]
Create Independent Estimates at Completion	X	X
Monitor Monthly Contractor's Progress	X	X
Review Contractor Performance Reports	X	X
Create Status and Management Reports		X
Participate in Integrated Baseline Reviews	X	X
Perform Contract EVM Analysis	X	X
Create Program Support Plan	X	
Perform General Program Support[3]	X	X

[1] Based on the DCMA Major Program Support and Earned Valued Management System (EVMS) System-Level Surveillance instructions.

[2] Based on the statement of work for support contract N00024-10-C-6309.

[3] For example, cost, schedule, and technical performance data analyses.

Because those taskings from the Program Manager to the support contractor on contract N00024-10-C-6309 and the deliverables from those taskings were informal, we could not quantify total value of support contractor taskings that DCMA could have performed. However, we can provide an example of a specific instance where the Program Manager used the support contractor for work DCMA could have performed. Specifically, the Program Manager should

have requested that DCMA assist in developing reliable and achievable performance measurement baselines for the OASIS Program, instead of tasking the support contractor. According to the Assistant Program Manager, the two support contractor employees participated in interviews of the control account managers during the 2008 integrated baseline review. The DCMA Support Instruction, Paragraph 2.2.6.1, "Cost Analysis," states that the program integrator investigates cost variances to determine the validity of the contractor's stated root cause for the variances and that those investigations should include interviews with control account managers. Had DCMA been involved during the 2008 integrated baseline review, the Program Manager may not have needed support contractor staff at the review or could have used them to conduct tasks other than those tasks that DCMA should be performing as part of their program support function.

In another example, the Program Manager could have used DCMA to update the provisions in OASIS contract N00024-02-C-6316. Specifically, the OASIS contract exceeded the $50 million threshold in February 2010, and the Program Manager could have requested that the procuring contracting officer modify the contract to add DFARS clause 252.234-7002. Adding the DFARS clause would have allowed DCMA to determine whether the contractor's EVM System complied with the EVM System guidelines in the American National Standards Institute/Electronic Industries Alliances Standard 748.[6]

Reliance on Support Contractor

The Program Manager relied on the support contractor because she minimized the need for DCMA to support the OASIS during the Engineering and Manufacturing Development Phase of the acquisition process. Specifically, on August 19, 2011, in response to our audit inquiries, the Program Manager stated that, because the OASIS was not in procurement, her main support need was "technical oversight," which was sufficiently provided by . . . "other engineering organizations." On January 27, 2012, the Program Manager clarified that she was referring to the Naval Surface Warfare Center - Panama City, which is the Navy's technical agent for mine warfare. While the Naval Surface Warfare Center does provide technical support to the OASIS Program, the DCMA Support Instruction, Paragraph 2.2.6.3, "Technical Analysis," states that DCMA has a commitment to provide program managers an independent technical assessment. The paragraph further states that the DCMA program integrator will base the technical assessment on engineering, software acquisition management, and manufacturing and quality assurance surveillance activities in the program support plan. The DCMA Support Instruction, Paragraph 7.1.1.3, "DCMA/PMO Strategy for Effective Program Support," states that the program management office and DCMA must coordinate to make maximum use of DCMA staff at contractor facilities. It is the responsibility of the Program Manager to delineate support work that DCMA and the support contractor can provide so as to use OASIS Program resources and funds most efficiently.

As a result of not requesting DCMA support and not clearly identifying support requirements, the Program Manager potentially expended funds over a 38-month period for services from a

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[6] American National Standards Institute/Electronic Industries Alliances Standard 748 describes 32 guidelines that provide a consistent basis to assist the Government and the contractor in implementing and maintaining acceptable EVM Systems.

support contractor that DCMA could have provided at no cost to the program. The Program Manager could have used the funds to have the support contractor work on other program needs. Also, the support contractor provided analyses that were insufficient to provide the Program Manager with information needed to mitigate cost growth and schedule delays. Specifically, the support contractor did not provide EVM analyses, monthly progress reports, and monthly program assessments so the Program Manager would have been aware earlier of the $10.4 million cost increases and schedule delays for the Milestone C decision. For further details on program cost increases and schedule delays, see Appendix B.

Support Contractor Not Fully Meeting Cost and Schedule Data Analysis Responsibilities

The support contractor was not effective in meeting contractual responsibilities for cost and schedule data analysis on contract N00024-10-C-6309.[7] The support contractor was tasked to assist in monitoring and evaluating cost, schedule, and technical performance of the prime contractor. However, the contracting officer's representative at the PEO LCS stated that as of September 14, 2011, the support contractor had not provided the program office any of this.

One example of the support contractor's lack of effectiveness in meeting contractual responsibilities for cost and schedule analysis involved the contract performance report. Under contract N00024-10-C-6309, the support contractor was to review the contractor's contract performance report. However, according to the Assistant Program Manager, the contractor omitted the baseline format of the contract performance report for more than 2 years. The contract data requirements list required the baseline format. The baseline format is used to measure contractor performance against the budget baseline plan. Neither the support contractor nor the Program Manager caught this omission. The PEO and the Program Manager should not rely on a support contractor to provide assessments of the contractor performance reports. Instead they should have relied on DCMA to provide an independent assessment of the contractor performance reports. PEO LCS should review other programs in the LCS portfolio to determine whether the use of DCMA services is being maximized.

PEO LCS Support Contracts Used for Tasks DCMA Could Have Performed

From October 2003 through September 2011, PEO LCS awarded three contracts totaling $338.2 million to CACI[8] to provide support to eight program offices within the command, one of which was the office of the Program Manager, who was responsible for the OASIS Program. Some of the taskings in the support contracts DCMA could have provided to the program offices at no cost. However, we were unable to determine the specific amount of cost associated with tasks DCMA could have performed rather than the support contractor because the statements of work and the way the costs were allocated were general and vague. Under Secretary of Defense for Acquisition, Technology, and Logistics memorandum, "Better Buying Power: Guidance for Obtaining Greater Efficiency and Productivity in Defense Spending," September 14, 2010, states

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[7] The period of performance for the OASIS portion of contract N00024-10-C-6309 is from September 29, 2010 to September 30, 2011.
[8] Contract N00024-01-D-7030 was awarded to Vredenburg, which is a subsidiary of CACI.

the Department has experienced significant increases in mission/requirements for services spending, particularly in knowledge management services, which has increased 400 percent in the last decade. These requirements often require the same function or services to be provided but are written uniquely among various commands so that competition is limited.

The support contractor provided program management and acquisitions support services, technical and engineering support services, business and financial management support, and logistics support services to the OASIS Program. However, DCMA could have performed those functions. For example:

- Contract N00024-01-D-7030, delivery order 0004, awarded October 29, 2003, and valued at $81.4 million, tasked the support contractor to perform EVM assessments, participate in the cost account manager reviews that the hardware and software vendors conduct, and assist in identifying and resolving issues.
- Contract N00178-04-D-4026, delivery order EH01, awarded September 1, 2005, and valued at $184.5 million, tasked the support contractor to assist in monitoring and evaluating cost, schedule, and technical performance of the prime contractor including formal EVM assessments, if required. Also, the support contractor was to participate in integrated baseline reviews, perform contract EVM Systems analysis, and develop independent estimates at completion.
- Contract N00024-10-C-6309, awarded September 29, 2010, and valued at $72.3 million, tasked the support contractor to assist in monitoring and evaluating cost, schedule, and technical performance of prime contractor including formal EVM assessments, if required. Also, the support contractor was to participate in integrated baseline reviews, perform contract EVM Systems analysis, and develop independent estimates at completion. Contract N00024-10-C-6309 also required the support contractor to submit monthly status and management reports on the contractor's progress and to provide status and technical report studies and services as required. Specific examples of required support contractor submissions included work breakdown structure, quarterly execution reviews, and independent cost estimate inputs.

DCMA should have conducted the EVM-related assessments that the three support contracts required. Further, the DCMA Major Program Instruction emphasizes the value of an independent DCMA assessment of the contractor's cost, schedule, and technical performance. The Program Manager should have requested that DCMA prepare performance assessment reports and conduct integrated baseline reviews to obtain performance data that the Program Manager could have used to proactively manage the program and accurately report program performance to decision makers.

DCMA and Program Manager Established a New MOA

As a result of our audit, on July 11, 2011, the Director of DCMA Orlando and the Program Manager established a new MOA that defines the functions, responsibilities, and oversight requirements requested of DCMA Orlando to support the OASIS Program.

Management Comments on the Finding and Our Response

Department of Navy Comments

The Program Executive Officer, Littoral Combat Ships, agreed in principle with the conclusion that the OASIS Program lacked DCMA support during the 38-month period between MOAs. He stated that none of the program support contractors performed duplicative work that DCMA could have provided. He further stated that contract N00024-10-C-6309 was an omnibus contract covering multiple program offices with dozens of program management support subtasks that were tasked as required. He also stated that for the OASIS Program, the support contractor was tasked to manage data and assemble briefs for the program office; the support contractor was not tasked with EVM data analyses.

Our Response

We disagree that "none of the program support contractors" performed duplicate work that DCMA could have provided. As discussed in section "Work Allocated to Support Contractor Without Requesting DCMA Support," we found an example showing that the support contractor performed work that DCMA could have performed. However, we also acknowledge that contract N00024-10-C-6309 covered multiple program offices with dozens of program management support subtasks. Further, we clarified the report to acknowledge that the support contractor did not provide assessments of the EVM System, but provided assessments of contractor performance reports, which the Program Manager should have relied on DCMA to provide.

Recommendation, Management Comments, and Our Response

B.1. We recommend the Program Executive Officer (Littoral Combat Ships) perform a review of the other programs in the Littoral Combat Ship portfolio to determine whether program managers are maximizing use of the Defense Contract Management Agency services.

Department of the Navy Comments

The Program Executive Officer, Littoral Combat Ships, agreed and stated that the Navy will conduct a review of the Littoral Combat Ship Acquisition Category I and II programs to ensure current MOAs with DCMA are in place to maximize use of its services and ensure that program offices are receiving monthly program assessments in accordance with MOA guidelines. The Program Executive Officer stated that the target completion date is May 31, 2012.

Our Response

The Program Executive Officer comments were responsive. No further comments are required.

Appendix A. Scope and Methodology

We conducted this performance audit from March 2011 through March 2012 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.

We interviewed staff from: Program Executive Office (Littoral Combat Ships), Mine Warfare Program Office, Washington Navy Yard; Naval Sea Systems Command Contracting Office, Washington Navy Yard; Navy Surface Warfare Center – Panama City Division, Florida; DCMA Orlando, Florida; DCMA Orlando – Shalimar Office, Florida; DCMA Huntsville, Alabama; DCMA Garden City, New York; Defense Contract Audit Agency Fort Walton Beach, Florida; and ITT Corporation, Panama City, Florida.

We collected, reviewed, and analyzed documents dated from August 2001 through December 2011. We reviewed FAR; DFARS; Under Secretary of Defense for Acquisition, Technology, and Logistics; and DCMA regulations and guidance. We also reviewed the OASIS contract N00024-02-C-6316; the support contractor contracts N00024-01-D7030 delivery order 0004, N00178-04-D-4026 delivery order EH01; and N00024-10-C-6309. Specifically, we reviewed contract modifications; contract data requirements list; contract performance reports; performance assessment reports; program support plans; the MOA between Program Manager and DCMA; Integrated Baseline Review; and milestone decision authority memoranda to determine whether Program Manager was effectively managing the OASIS Pprogram.

Use of Computer-Processed Data

We did not rely on computer-processed data to perform this audit.

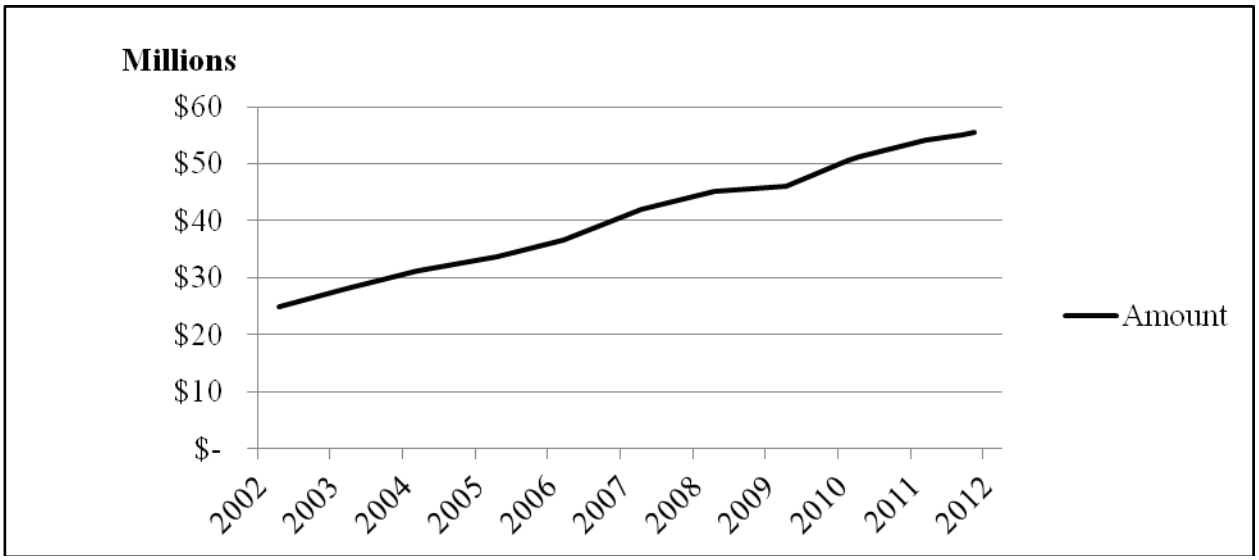
Prior Coverage

No prior coverage has been conducted on the overall management of the OASIS Program during the last 5 years.

Appendix B. Milestone C Decision Delayed

Table B-1 depicts the cost increases to the OASIS Program from April 2002 to November 2011. On April 26, 2002, the Navy awarded a $25 million contract to develop OASIS. Between April 2002 and November 2011, the contract value increased by $30.6 million for a final total value of $55.6 million.

Table B-1. OASIS Program Cost Increase



Original Milestone C Acquisition Program Baseline January 2005 to July 2005: In February 2003, the Program Manager stated that the OASIS would deviate from its current baseline due to schedule deviations in Milestone C, low-rate initial production, because of the Department of the Navy budget review.

Milestone C Acquisition Program Baseline Change 1 August 2005 to February 2006: In October 2003, the Program Manager stated that the OASIS Program anticipated a deviation in Milestone C due to a decrease in Navy procurement funding.

Milestone C Acquisition Program Baseline Change 2 December 2006 to June 2007: In July 2004, the Program Manager stated that because of cost and schedule deviations due to program restructuring alignment with MH-60 S Test and Evaluation Aircraft schedule, the OASIS Program anticipated an increase in Research, Development, Test, and Evaluation costs and a delay in the Milestone C decision.

Milestone C Acquisition Program Baseline Change 3 August 2008 to February 2009: In October 2006, the Program Manager stated that the OASIS Program was experiencing cost growth and schedule delays as a result of a technical issue relating to the OASIS tow cable interface with the MH-60S helicopter carriage, stream, tow, and recovery system.

Milestone C Acquisition Program Baseline Proposed Change 4 May 2010 to November 2010: In August 2008, the Program Manager presented a planned Milestone C decision for May 2010 to the Assistant Secretary of the Navy, Research, Development, and Acquisition.

Current Program Office Estimate for Milestone C Acquisition Program Baseline October 2012 to December 2012: On January 6, 2012, the Assistant Program Manager for OASIS stated that the Milestone C decision is scheduled to occur in the first quarter FY 2013.

Defense Contract Management Agency Comments

DEFENSE CONTRACT MANAGEMENT AGENCY
3901 A AVENUE, BUILDING 10500
FORT LEE, VIRGINIA 23801

MEMORANDUM FOR DEPARTMENT OF DEFENSE, OFFICE OF INSPECTOR GENERAL, ACQUISITION AND CONTRACT MANAGEMENT

SUBJECT: Response to Department of Defense Office of Inspector General (DoDIG) Draft Report "Navy Organic Airborne and Surface Influence Sweep Program Needs Defense Contract Management Agency Support" dated March 6, 2012

Reference: DoDIG Project No. D2011-D000AE-0255.000

We have attached the Headquarters, Defense Contract Management Agency's comments and documentation as requested.

The Point of Contact for our response is [redacted]

SMALL.KARRON.E.1229625957 Digitally signed by SMALL.KARRON.E.1229625957 DN: c=US, o=U.S. Government, ou=DoD, ou=PKI, ou=DLA, cn=SMALL.KARRON.E.1229625957 Date: 2012.03.20 16:09:20 -04'00'

Karron E. Small
Executive Director
Engineering and Analysis Directorate

Attachment:
As stated

Response to Department of Defense Office of Inspector General (DoDIG) Draft Report "Navy Organic Airborne and Surface Influence Sweep Program Needs Defense Contract Management Agency Support" dated March 6, 2012

DoDIG recommends that the Director, Defense Contract Management Agency::

Recommendation A.1: Validate ITT Exelis, Inc. earned value management system in accordance with Defense Federal Acquisition Regulation Supplement clause 252.234-7002, "Earned Value Management System,"

DCMA COMMENTS: DCMA concurs with the IG recommendation. The EVM Implementation Division, DCMA Operations Directorate, had the contractor scheduled to begin the validation process in April 2012. The Program Office suspended funding to the OASIS program after 31 March 2012 for the remainder of FY12. DCMA has postponed the previously planned validation process until it has been notified that program funding has been restored.

Recommendation A.2: Complete update of the Major Program Support Instruction to include guidance on transitioning program responsibilities between contract management offices.

DCMA COMMENTS: DCMA concurs with the IG recommendation to add transition guidance to the Major Program Support (MPS) Instruction. To facilitate the revision, DCMA issued Action/Tasking Memo No. 11-388, dated 11 October 2011, on 13 October 2011. The Action Memo detailed specific requirements for Contract Management Offices (CMOs) to take when the responsibility for administration of a contract associated with a major program (ACAT I, II, or equivalent) was transferred between CMOs due to a change in contractor location or a change in the DCMA organizational alignment. The specifics of the memo's direction have been added as paragraph 9 to the revision of the MPS Instruction, which is currently in the DCMA Formal Coordination process. DCMA expects to complete Formal Coordination of the Instruction in May 2012.

Department of the Navy Comments

THE ASSISTANT SECRETARY OF THE NAVY
(RESEARCH, DEVELOPMENT AND ACQUISITION)
1000 NAVY PENTAGON
WASHINGTON DC 20350-1000

APR 10 2012

MEMORANDUM FOR DEPARTMENT OF DEFENSE, OFFICE OF THE INSPECTOR GENERAL

SUBJECT: Navy Organic Airborne and Surface Influence Sweep Program Needs Defense Contract Management Agency Support, (Project No. D2011-D000AE-0255.000)

This Memorandum provides the Department of the Navy response to subject draft report dated March 6, 2012. Subject report requested comments from Director, DCMA and Program Executive Officer, Littoral Combat Ships. Attached are comments from the Program Executive Officer, Littoral Combat Ships.

If you have any questions pertaining to this Memorandum or its attachment please refer them to [redacted]

Sean J. Stackley

Attachments:
As stated

DEPARTMENT OF THE NAVY
PROGRAM EXECUTIVE OFFICE
LITTORAL COMBAT SHIPS
614 SICARD ST. SE
WASHINGTON NAVY YARD, DC 20376-7003

IN REPLY REFER TO
7500
Ser LCS/1241
30 Mar 12

From: Program Executive Officer, Littoral Combat Ships
To: Assistant Secretary of the Navy (Research, Development and Acquisition) Acquisition and Logistics Management

Subj: NAVY ORGANIC AIRBORNE AND SURFACE INFLUENCE SWEEP PROGRAM NEEDS DEFENSE CONTRACT MANAGEMENT AGENCY SUPPORT (D2011-D000AE-0255.000)

Encl: (1) NAVSEA Response to the Subject DODIG Draft Report

1. Enclosure (1) is NAVSEA's response to the subject draft audit report prepared in the required DON format.

2. For additional information, contact [redacted].

J. A. MURDOCH

Copy to:
NAVINSGEN (N42)
PEO LCS (PMS 495)

DEPARTMENT OF THE NAVY RESPONSE
TO
DODIG DRAFT REPORT ON NAVY ORGANIC AIRBORNE AND SURFACE INFLUENCE SWEEP PROGRAM
(Project No. D2011-D000AE-0255.000)

DODIG Finding A: The Navy Needs to Engage DCMA for Support

DON Finding A Response:

Navy disagrees with the statement Program Manager Could Have Used EVM Data to Mitigate Risks to the Program, which implies that EVM data was not used on the program. For clarification, EVM data was presented and reviewed during program Quarterly Execution Reviews with the Program Manager and PEO. In fact, PEO LMW spent considerable time questioning OASIS EVM data to better understand and identify program risk during these sessions. Examples of EVM data presented at QERs were previously provided in support of the audit.

Revised, Page 7

DODIG Finding B: The Navy Needs to Effectively Use Program Support Resources

DON Finding B Response:

Navy concurs in principle with the conclusion that the OASIS program lacked DCMA support including DCMA generated program assessment reports or DCMA review of EVM data during the 38 month period between MOA's. The program support contractors did not perform EVM analysis or duplicative work DCMA could have provided. The contract cited (N00024-10-C-6309) was an omnibus contract covering multiple program offices with dozens of program management support subtasks that were tasked as required. For the OASIS program, the support contractor was tasked to manage data and assemble briefs for the program office, they were not tasked with EVM data analyses.

Revised, Page 14

DODIG Audit Recommendation B.1: We recommend the Program Executive Officer (Littoral Combat Ships) perform a review of the other programs in the Littoral Combat Ship portfolio to determine whether program managers are maximizing use of the Defense Contract Management Agency services.

DON Response B.1: Concur.

A review of Littoral Combat Ships ACAT I and II programs will be conducted to ensure current Memoranda of Agreement are in place with DCMA to maximize use of their services and ensure that monthly programs assessments are being received according to MOA guidelines as agreed between PEO LCS program offices and DCMA.

Target Completion Date: 31 May 2012

Inspector General
Department of Defense