

Inspector General

United States
Department of Defense



Improved Oversight, but No Invoice Reviews and Potential Antideficiency Act Violation May Have Occurred on the Kuwait Observer Controller Team Task Orders

Additional Copies

To obtain additional copies of this report, visit the Web site of the Department of Defense Inspector General at <http://www.dodig.mil/audit/reports> or contact the Secondary Reports Distribution Unit at (703) 604-8937 (DSN 664-8937) or fax (571) 372-7466.

Suggestions for Audits

To suggest or request audits, contact the Office of the Deputy Inspector General for Auditing by phone (703) 604-9142 (DSN 664-9142), by fax (571) 372-7469, or by mail:

Department of Defense Office of Inspector General
Office of the Deputy Inspector General for Auditing
ATTN: Audit Suggestions/13F25-04
4800 Mark Center Drive
Alexandria, VA 22350-1500

DEPARTMENT OF DEFENSE

hotline

To report fraud, waste, mismanagement, and abuse of authority.

Send written complaints to: Defense Hotline, The Pentagon, Washington, DC 20301-1900
Phone: 800.424.9098 e-mail: hotline@dodig.mil www.dodig.mil/hotline

Acronyms

ACOR	Alternate Contracting Officer's Representative
COR	Contracting Officer's Representative
DCAA	Defense Contract Audit Agency
DCMA	Defense Contract Management Agency
DFARS	Defense Federal Acquisition Regulation Supplement
FAR	Federal Acquisition Regulation
FMR	Financial Management Regulation
FOCUS	Field Operations Customer Support
KOCT	Kuwait Observer Controller Team
PEO STRI	U.S Army Program Executive Office for Simulation, Training, and Instrumentation
QASP	Quality Assurance Surveillance Plan
RTSC	Raytheon Technical Services Company



INSPECTOR GENERAL
DEPARTMENT OF DEFENSE
400 ARMY NAVY DRIVE
ARLINGTON, VIRGINIA 22202-4704

August 2, 2012

MEMORANDUM FOR DIRECTOR, DEFENSE CONTRACT AUDIT AGENCY
AUDITOR GENERAL, DEPARTMENT OF THE ARMY

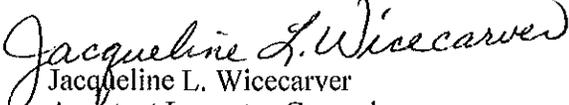
SUBJECT: Improved Oversight, but No Invoice Reviews and Potential Antideficiency Act Violation May Have Occurred on the Kuwait Observer Controller Team Task Orders (Report No. DODIG-2012-115)

We are providing this report for your review and comment. U.S. Army Program Executive Office for Simulation, Training, and Instrumentation officials did not review contractor interim invoices, totaling \$192.7 million, for the task orders, and Defense Contract Audit Agency auditors did not audit the costs claimed on the invoices. U.S. Army Program Executive Office for Simulation, Training, and Instrumentation personnel reimbursed the contractor for approximately \$70,000 in questioned direct travel costs. This is the third in a series of audits relating to the Warfighter Field Operations Customer Support contract.

We considered management comments on a draft of this report when preparing the final report. DoD Directive 7650.3 requires that recommendations be resolved promptly. Comments from the Office of the Assistant Secretary of the Army (Financial Management and Comptroller) were responsive. Comments from the Principal Assistant Responsible for Contracting, Program Executive Office for Simulation, Training, and Instrumentation; the Resident Auditor, Raytheon Network Centric Systems, Defense Contract Audit Agency; and the Resident Auditor, Raytheon Integrated Defense Systems Resident Office, Defense Contract Audit Agency, were partially responsive. Additionally, as a result of management comments, we revised Recommendation A.1.a directed to the Principal Assistant Responsible for Contracting, Program Executive Office for Simulation, Training, and Instrumentation. Therefore, we request additional comments for recommendations listed in the Recommendations Table on page ii by September 4, 2012.

If possible, send a portable document format (.pdf) file containing your comments to audacm@dodig.mil. Comments provided to the final report must be marked and portion-marked, as appropriate, in accordance with DoD Manual 5200.01. Copies of your comments must have the actual signature of the authorizing official for your organization. We are unable to 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 Mr. Tim Moore at (703) 604-9068 (DSN 664-9068).


Jacqueline L. Wicecarver
Assistant Inspector General
Acquisition and Contract Management



Results in Brief: Improved Oversight, but No Invoice Reviews and Potential Antideficiency Act Violation May Have Occurred on the Kuwait Observer Controller Team Task Orders

What We Did

This is the third in a series of audits on the Warfighter Field Operations and Customer Support contract. We determined whether the U.S. Army Program Executive Office for Simulation, Training, and Instrumentation (PEO STRI) obtained fair and reasonable prices and appropriately developed surveillance and oversight processes and procedures for the Kuwait Observer Controller Team (KOCT) task orders, valued at \$195.2 million.

What We Found

On the KOCT task orders, PEO STRI contracting personnel negotiated fair and reasonable prices for goods and services and generally developed appropriate contractor surveillance and oversight processes and procedures. However, PEO STRI contracting and oversight personnel did not review contractor interim invoices, totaling \$192.7 million, on the KOCT task orders because the contracting officer used a quality assurance surveillance plan (QASP) that did not include procedures for reviewing contractor invoices. Additionally, at the time of our review, Defense Contract Audit Agency (DCAA) auditors had not yet audited the costs claimed on the interim invoices because DCAA had not performed an incurred cost audit of the contractor since 2005. As a result, PEO STRI paid approximately \$70,000 in questioned direct travel costs and may be paying for other unreasonable and unallowable supplies and services on the KOCT task orders.

Further, the PEO STRI contracting officer potentially violated the Antideficiency Act by obligating Iraq Security Forces funds on the KOCT task order. This occurred because the PEO STRI contracting officer did not verify the purpose of the funding before obligating those funds to the task order.

What We Recommend

The Principal Assistant Responsible for Contracting, PEO STRI should have the contracting officer review claimed airfare costs to determine whether the costs are allowable and update the KOCT QASP to require program and in-country oversight personnel to review prime and subcontractor interim invoices to verify that costs claimed are necessary and reasonable. The Resident Auditor, Raytheon Network Centric System Resident Office, DCAA, should develop and implement procedures to verify that the Army does not reimburse the contractor for potentially unallowable costs.

Management Comments and Our Response

Comments from the Office of the Assistant Secretary of the Army (Financial Management and Comptroller) were responsive. Comments from the Principal Assistant Responsible for Contracting, PEO STRI; Resident Auditor, Raytheon Network Centric Systems, Defense Contract Audit Agency; and Resident Auditor, Raytheon Integrated Defense Systems Resident Office, Defense Contract Audit Agency, were partially responsive. Please see the recommendations table on the back of this page.

Recommendations Table

Management	Recommendations Requiring Comment	No Additional Comments Required
Office of the Assistant Secretary of the Army (Financial Management and Comptroller)	B.1	
Principal Assistant Responsible for Contracting, Program Executive Office for Simulation, Training, and Instrumentation	A.1.a, A.1.b, A.1.c	B.2
Resident Auditor, Raytheon Network Centric Systems Resident Office, Defense Contract Audit Agency	A.2.a, A.2.b	
Resident Auditor, Raytheon Integrated Defense Systems Resident Office, Defense Contract Audit Agency	A.3	

Please provide comments by September 4, 2012.

Table of Contents

Introduction	1
Objectives	1
Background	1
Review of Internal Controls	3
Finding A. U.S. Army Program Executive Office for Simulation, Training, and Instrumentation (PEO STRI) Did Not Review Interim Invoices and Defense Contract Audit Agency Has Not Audited Reimbursed Costs	4
Negotiated Prices Were Fair and Reasonable	4
Quality Assurance Surveillance Plan Improved for Kuwait Observer Controller Team Task Orders	4
Oversight of Invoices Needed and Incurred Cost Audits Not Performed	6
Contractor Reimbursed for Questioned Direct Travel Costs	8
Conclusion	10
Management Comments on the Finding and Our Response	10
Recommendations, Management Comments, and Our Response	11
Finding B. PEO STRI Potentially Violated the Antideficiency Act	17
Noncompliance With the Purpose Statute May Lead to an Antideficiency Act Violation	17
PEO STRI Potentially Violated the Purpose Statute	17
Contracting Officer Did Not Verify the Purpose of Funds	18
Conclusion	19
PEO STRI Issued a Memorandum to Report the Potential Violation	20
Recommendations, Management Comments, and Our Response	20
Appendix	
Scope and Methodology	23
Use of Computer Processed Data	24
Prior Coverage	24
Management Comments	
Assistant Secretary of the Army (Financial Management and Comptroller) Comments	25
Assistant Secretary of the Army (Acquisition, Logistics, and Technology) Comments	26
Defense Contract Audit Agency Comments	40

Introduction

Objectives

Our audit objectives were to determine whether the U.S. Army Program Executive Office for Simulation, Training, and Instrumentation (PEO STRI) obtained fair and reasonable prices for goods and services on the Kuwait Observer Controller Team (KOCT) task orders and appropriately developed contractor surveillance and oversight processes and procedures for the task orders. This is the third in a series of audits relating to the Warfighter Field Operations Customer Support (FOCUS) contract. See the appendix for a discussion of the scope and methodology and prior audit coverage.

Background

PEO STRI officials awarded contract W900KK-07-D-0001, the Warfighter FOCUS contract, on June 6, 2007, to Raytheon Technical Services Company (RTSC), with a total contract ceiling price of approximately \$11.2 billion.

Contract Requirements

PEO STRI officials awarded the Warfighter FOCUS contract to provide operations, maintenance, systems integration, and engineering support services to the U.S. Army for the following three types of training:

- Live Training – training involving real people operating real systems,
- Virtual Training – training involving real people operating simulated systems, and
- Constructive Training – training involving simulated people operating simulated systems.

RTSC, as the prime contractor for the Warfighter FOCUS contract, led a team of more than 120 subcontractors known as the Warrior Training Alliance. RTSC created the Warrior Training Alliance to assist in executing all training efforts issued under the Warfighter FOCUS contract.

Contract Structure

PEO STRI officials awarded the Warfighter FOCUS indefinite-delivery, indefinite-quantity contract with a ceiling of approximately \$11.2 billion; approximately \$1.2 billion of the contract was for specified work. PEO STRI contracting personnel stated that the remaining \$10 billion was for unidentified training efforts to be incorporated into task orders.

Kuwait Observer Controller Team Task Order

On July 1, 2009, PEO STRI personnel issued cost-plus-fixed-fee task order 138 against the Warfighter FOCUS contract to provide service support for the KOCT training effort. The period of performance included a base year and two option years, to be exercised through task orders 238 and 338. The total estimated cost of the cost-plus-fixed-fee task

orders was approximately \$195.2 million. PEO STRI officials awarded the KOCT task orders to RTSC, whose subcontractor, MPRI¹, accounted for 83 percent of the total estimated costs of the task orders.

The KOCT task orders provided assistance in planning for unit training support and training related tasks within the U.S. Central Command for U.S. military and coalition forces combat, combat support, and combat service support elements. The U.S. Army Central Command developed the training requirements for the task orders. Training included individual, collective, leader, and staff training in accordance with current or emerging U.S. Army Joint Doctrine and Mission Training Plans. The KOCT contractor delivered targeted training and participated in operating the Army training support system. Specifically, the KOCT contractor developed, sustained, and adapted training and training support capabilities. These training activities included, but were not limited to gunnery exercises, mission rehearsal exercises, situation training exercises, live fire exercises, and force-on-force training.

The PEO STRI contracting officer assigned primary oversight responsibilities for the task orders to two DoD personnel (an alternate contracting officer's representative [ACOR] and a technical oversight representative). The ACOR inspected training exercises and communicated daily with the contracting officer, and the technical oversight representative monitored contractor performance, served as a technical contact for the contractor, and relayed problems to the ACOR.

Payment Review Process for a Cost-Reimbursement Contract

Under cost-reimbursement contracts, contractors submit interim invoices² to obtain provisionally approved payments that are subject to retroactive adjustment upon the determination of the allowability of costs claimed. Defense Federal Acquisition Regulation Supplement (DFARS) 242.803(b), "Auditor Receipt of Voucher," and DoD Directive 5105.36, "Defense Contract Audit Agency," January 4, 2010³, designate contract auditors from the Defense Contract Audit Agency (DCAA) as the authorized representatives of the contracting officer to approve interim invoices for provisional payment and send them to the disbursing office for payment.

According to the Defense Contingency Contracting Officer's Representative (COR) Handbook, CORs can review, but not approve, invoices for payment. The Handbook states that CORs should review billing statements thoroughly and on time and CORs must ensure the Government gets what it paid for. A COR's approval of an invoice implies that, (to the best of the COR's knowledge,) the nature, type, and quality of effort or materials being expended are in accordance with the progress of work on the contract.

¹ MPRI is now known as "L-3 MPRI," but we will refer to them as MPRI throughout this report.

² This report uses the term "interim invoice" when referring to contractor-submitted vouchers for payment on cost-reimbursable contracts.

³ DoD Directive 5105.36 states that DCAA should perform all necessary contract audits for DoD and provide accounting and financial advisory services regarding contracts and subcontracts to all DoD Components responsible for procurement and administration.

Although CORs may review invoices, DCAA has the sole authority for verifying claimed costs and approving interim payment requests on cost-reimbursement contracts. DCAA auditors generally receive interim invoices from contractors through the Wide Area Workflow system and approve or reject the interim invoices based on an evaluation of sampled interim invoices. DCAA auditors perform the interim invoice evaluations as a nonaudit service; therefore, these evaluations are not intended to identify unallowable costs claimed by the contractor that would be found when performing substantive testing. Rather, DCAA auditors perform an administrative evaluation of interim invoices to verify that the amounts claimed are not more than the amount due to the contractor in accordance with the contract terms before approval of provisional payment.

The amount DCAA auditors provisionally approve on interim invoices is subject to an audit of the contractor's records before the final settlement under the contract, in accordance with Federal Acquisition Regulation (FAR) clause 52.216-7, "Allowable Cost and Payment." The KOCT task orders contained clause 52.216-7, which states in part:

[a]t any time or times before final payment, the Contracting Officer may have the Contractor's invoices or vouchers and statements of cost audited. Any payment may be reduced by amounts found by the Contracting Officer not to constitute allowable costs or adjusted for prior overpayments or underpayments.

In accordance with DCAA's policy, contract auditors perform annual incurred cost audits to determine the overall acceptability of the contractor's claimed costs with respect to reasonableness, allocability, and compliance with applicable cost limitations or exclusions as stated in the contract or the FAR. Incurred cost audits are usually performed on a contractor-wide basis, as opposed to on individual contracts. The DCAA Contract Audit Manual requires DCAA auditors to perform sufficient substantive testing, including transaction testing and analytical procedures, based on a risk assessment to provide an opinion on the allowability of the claimed costs.

Review of Internal Controls

DoD Instruction 5010.40, "Managers' Internal Control Program (MCIP) Procedures," July 29, 2010, 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. We identified internal control weaknesses associated with the contract billing and oversight of the KOCT task orders. Specifically, PEO STRI contracting personnel did not include procedures for the ACOR to review contractor interim invoices in the KOCT Quality Assurance Surveillance Plan (QASP). Additionally, PEO STRI contracting personnel did not verify the purpose of contract funding before obligating funding to the task order. We will provide a copy of the report to the senior official responsible for internal controls at PEO STRI and the Department of the Army.

Finding A. PEO STRI Did Not Review Interim Invoices and DCAA Has Not Audited Reimbursed Costs

On the KOCT task orders, PEO STRI contracting personnel negotiated fair and reasonable prices for goods and services and generally developed appropriate contractor surveillance and oversight processes and procedures. Specifically, PEO STRI personnel incorporated lessons learned from the DoD Office of Inspector General Report No. 2011-113, “Improved Pricing and Oversight Needed for the Afghan Air Force Pilot and English Language Training Task Order,” September 30, 2011, and updated the QASP for the KOCT task orders to include specific performance metrics, surveillance procedures, and the frequency of oversight visits.

However, PEO STRI contracting and oversight personnel did not review contractor interim invoices, totaling \$192.7 million, on the KOCT task orders before provisionally paying the interim invoices. This occurred because the PEO STRI contracting officer used a QASP that did not include procedures for reviewing contractor invoices. Additionally, DCAA only performs administrative evaluations of interim invoices before approving them for payment. At the time of our review, DCAA auditors had not yet audited the costs claimed on the interim invoices to determine whether the costs were allowable; DCAA had not performed an incurred cost audit at RTSC since 2005 because of its backlog of pending incurred cost audits. As a result, PEO STRI paid approximately \$70,000 in questioned direct travel costs and may be paying for other unreasonable and unallowable supplies and services on the KOCT task orders.

Negotiated Prices Were Fair and Reasonable

FAR 15.402, “Pricing Policy,” requires Government contracting officers to purchase supplies and services at fair and reasonable prices. The contracting officer is responsible for evaluating the reasonableness of the offered prices and analyzing the proposal to ensure that the final agreed-to price is fair and reasonable. The PEO STRI contracting officer used a technical evaluation, a cost realism analysis, and field pricing assistance to evaluate the reasonableness of the proposal for the KOCT task orders in accordance with the FAR. PEO STRI contracting personnel negotiated the cost estimate for the KOCT task orders with the prime and subcontractor and appropriately determined that the resulting price for the KOCT effort was fair and reasonable based on their analyses.

QASP Improved for KOCT Task Orders

PEO STRI personnel generally developed appropriate contractor surveillance and oversight processes and procedures for the KOCT task orders. Specifically, PEO STRI personnel incorporated lessons learned from the DoD Office of Inspector General Report No. 2011-113, “Improved Pricing and Oversight Needed for the Afghan Air Force Pilot and English Language Training Task Order,” September 30, 2011, and updated the QASP for the KOCT task orders to include surveillance procedures, performance metrics, and the frequency of oversight visits.

Previous KOCT QASPs

PEO STRI and Defense Contract Management Agency (DCMA) personnel initially developed three oversight plans that supported the KOCT task orders, but the oversight plans were not adequate because they did not provide guidance on specific surveillance procedures or performance metrics. Additionally, two of the three plans did not specify the frequency of oversight. FAR part 46, “Quality Assurance,” states that QASPs should specify all work requiring surveillance and the method of surveillance.

PEO STRI contracting personnel created an overall QASP for the basic Warfighter FOCUS indefinite-delivery, indefinite-quantity contract that stated the procuring contracting officer was ultimately responsible for the QASP. The QASP provided five acceptable surveillance methods but only provided basic definitions of each method and did not provide guidance on when each method would be appropriate to use. The Warfighter FOCUS QASP did not distinguish between ratings in the performance metrics, or specify the frequency of oversight visits. The Warfighter FOCUS QASP did not contain any reference to the KOCT task orders. Additionally, DCMA-Kuwait personnel developed an oversight plan they referred to as an “audit record,” to provide oversight for the KOCT effort that specified the work requiring surveillance and included minimal oversight metrics. However, the audit record did not provide methods of surveillance or state how frequently DCMA personnel should perform oversight. Further, PEO STRI personnel developed a QASP specific to the KOCT task orders that defined the work requiring surveillance and the frequency of oversight, but did not specify the appropriate methods of surveillance or define performance metrics.

Updated QASP for the KOCT Task Orders

On September 26, 2011, PEO STRI officials created an updated QASP for the KOCT task orders similar to the new QASP for the Afghan Air Force training task order that specified the work requiring surveillance. The updated QASP included specific

The updated QASP included specific performance objectives requiring surveillance with references to the KOCT statement of work.

performance objectives requiring surveillance with references to the KOCT statement of work. For example, the surveillance checklist included a step for the ACOR to evaluate a performance objective from the KOCT statement of work that required the contractor to respond to contingency operational missions during time sensitive, mission essential

tasks. The updated QASP for the KOCT task orders also provided five surveillance procedures.

The updated QASP for the KOCT task orders provided specific definitions of ratings on a scale of “excellent” to “unsatisfactory.” The surveillance checklist further defined descriptive metrics as they related to each statement of work performance objective. For example, one performance objective was to evaluate new contractor training. The updated QASP described “excellent” performance for this objective as the contractor identifying and meeting new training and support tasks within 15 days. The updated QASP described “unsatisfactory” performance as the contractor failing to execute new

training and support tasks within 60 days from Government approval. The performance metrics were unique for each performance objective requiring surveillance.

Additionally, the updated QASP for the KOCT task orders specified the frequency of surveillance that was appropriate for the KOCT task orders. For example, the updated QASP stated that the ACOR should review contractor self reporting, conduct periodic inspections and monthly observations using the surveillance checklist, and rely on customer input for oversight as they receive it. The updated QASP for the KOCT task orders also stated that PEO STRI should hold program management reviews quarterly.

Oversight of Invoices Needed and Incurred Cost Audits Not Performed

Although PEO STRI contracting officials took steps to improve contract oversight, contracting and oversight personnel did not review contractor interim invoices, totaling \$192.7 million, on the KOCT task orders before provisionally paying the interim invoices. Additionally, at the time of our review, DCAA auditors had not yet audited the costs claimed on the interim invoices to determine whether the costs were allowable.

No Contracting Office Invoice Reviews

PEO STRI contracting and oversight personnel did not review interim invoices on the KOCT task orders. According to the contracting officer's delegation and appointment letter, the ACOR was responsible for notifying the contracting officer of any inconsistencies between invoiced charges and performance. However, a former KOCT ACOR stated that the ACOR and technical oversight representative had no involvement in reviewing interim invoices before DoD paid the contractor. Therefore, PEO STRI oversight personnel did not review interim invoices to verify that services billed to the task order were actually performed and were reasonable. As a result, DoD may be paying costs for supplies and services that were not incurred or reasonable and necessary to perform the task orders.

The ACOR and technical oversight representative had no involvement in reviewing interim invoices before DoD paid the contractor.

The PEO STRI contracting officer used a firm-fixed-price task order QASP to develop the QASP for the cost-plus-fixed-fee KOCT task orders and did not include procedures for reviewing contractor interim invoices in the QASP. FAR 16.301-3(a)(4)(ii), "Cost-Reimbursement Contracts-Limitations," states that a cost-reimbursement contract may only be used when appropriate Government surveillance will provide reasonable assurance that the contractor uses efficient methods and effective cost controls. Therefore, the QASP should include procedures that require the ACOR to review prime and subcontractor interim invoices and verify that the supplies and were reasonable and necessary to perform the task orders and whether DoD had received the supplies and services.

No DCAA Audit of Reimbursed Costs on the KOCT Task Orders

At the time of our review, DCAA auditors had not yet audited the costs reimbursed on the interim invoices. According to DFARS 242.803(b) and DoD Directive 5105.36, contract auditors at DCAA are the authorized representatives of the contracting officer to approve interim invoices for provisional payment and send them to the disbursing office for payment. FAR 42.101, "Contract Audit Responsibilities," states that DCAA is generally the Government audit organization responsible for auditing the acceptability of the contractor's incurred costs. DCAA has the sole authority for approving interim payment requests on cost-reimbursement contracts and auditing claimed costs to determine allowability.

The DCAA Resident Office at Raytheon Network Centric Systems began performing interim invoice reviews on RTSC interim invoices in February 2011⁴. However, when approving interim invoices for provisional payment, DCAA guidance only requires DCAA auditors to perform an administrative evaluation of interim invoices to verify that the amounts claimed are not more than the amount due to the contractor in accordance with the contract terms. The interim invoice evaluations are not intended to identify unallowable costs claimed by the contractor that would be found when performing substantive testing.

In accordance with DCAA's policy, contract auditors perform annual incurred cost audits to determine the overall acceptability of the contractor's claimed costs with respect to reasonableness, allocability, and compliance with applicable cost limitations or exclusions as stated in the contract or the FAR. Incurred cost audits are usually performed on a contractor-wide basis, as opposed to on individual contracts. The DCAA Contract Audit Manual requires DCAA auditors to perform sufficient substantive testing, including transaction testing and analytical procedures, based on a risk assessment to provide an opinion on the allowability of the claimed costs.

The DCAA Resident Office at Raytheon Integrated Defense Systems was responsible for performing incurred cost audits on RTSC. However, at the time of our review, DCAA auditors had not performed any incurred cost audits on the direct or indirect costs charged to the KOCT task orders since RTSC started charging costs to the KOCT task orders in 2009 because of DCAA's backlog of pending incurred cost audits. The last incurred cost audit that DCAA auditors completed on RTSC was for FY 2005 incurred costs. As a result of DCAA's backlog of pending incurred cost audits, DCAA had not had an opportunity to identify any unallowable or questioned costs reimbursed on the KOCT task orders, and PEO STRI may be paying for unallowable supplies and services.

DCAA auditors had not performed any incurred cost audits on the direct or indirect costs charged to the KOCT task orders...

⁴ Before February 2011, DCAA authorized RTSC to directly submit invoices to the payment office in accordance with DFARS 242.803(b)(c).

We examined interim invoices submitted by RTSC for provisional payment on the KOCT task orders to evaluate contract pricing. As of August 11, 2011, RTSC submitted 37 interim invoices, with a total value of \$118.9 million⁵. Of the 37 interim invoices, we reviewed documentation for 1 RTSC invoice (RTSC invoice 90890718, valued at approximately \$5.4 million) for task order 238 to determine whether the costs claimed on that invoice were supported. The prime and subcontractor provided appropriate documentation to support the costs on this invoice, including time sheets, pay statements, and receipts. However, we questioned airfare costs claimed by the prime contractor and subsequently reviewed all airfare costs claimed by the prime contractor on the KOCT task orders.

Contractor Reimbursed for Questioned Direct Travel Costs

PEO STRI reimbursed the contractor for approximately \$70,000 in questioned direct travel costs on interim invoices for services on the KOCT task orders. Specifically, the contractor improperly billed and PEO STRI reimbursed the contractor for first and business class airline accommodations. The contractor used its own travel policy that did not address a special contract provision in the KOCT task orders to justify the upgraded airfare costs on interim invoices.

The KOCT task orders contained a travel clause that PEO STRI contracting officials stated was intended to limit the contractor's travel to costs that would be incurred by a Government employee. Task order 138 contained PEO STRI clause 5152.232-5007, "Reimbursement of Travel, Per Diem, and Special Material Costs," September 2008, which states that the contractor agreed to use the lowest cost mode of travel appropriate for the requirements of the mission. Specifically, the contractor agreed to use coach or similar accommodations for air travel to the extent consistent with the successful and economical accomplishment of the mission for which the travel was being performed. Additionally, FAR 31.205-46(b), "Travel Costs," states that costs in excess of "the lowest priced airfare available to the contractor during normal business hours" are unallowable,⁶ with some exceptions, including if those accommodations require travel during unreasonable hours. The FAR states that applicable exceptions must be documented and justified for airfare costs in excess of the standard airfare or lowest priced airfare available to the contractor to be allowable.

⁵ As of April 9, 2012, RTSC submitted and was paid for 56 interim invoices with a total value of \$192.7 million.

⁶ Before January 2010, FAR 31.205-46(b) stated that costs in excess of "the lowest customary standard, coach, or equivalent airfare offered during normal business hours" were unallowable, with some exceptions, including if those accommodations required travel during unreasonable hours.

Contractor personnel claimed costs for first or business class airline accommodations on 15 of the 71 expense reports that the contractor used to support airfare costs claimed on

Contractor personnel claimed costs for first or business class airline accommodations on 15 of the 71 expense reports that the contractor used to support airfare costs claimed on the KOCT task orders.

the KOCT task orders. The direct travel costs for airfare charged to the KOCT task orders on the 15 expense reports totaled approximately \$70,000. For example, an RTSC employee initially booked an economy class ticket from Kuwait to Washington, D.C. to Orlando, Florida, and later upgraded those flights to business and first class at an additional cost of \$3,323. Fifty percent of this cost was allocable to a different task order and

RTSC claimed the remaining 50 percent, or \$1,661.50, on an invoice for the KOCT task orders. In another example, the employee claimed \$8,700 on an invoice for the KOCT task orders for a roundtrip ticket from Orlando, Florida, to Kuwait that included business class accommodations. Alternatively, RTSC claimed costs for an economy class ticket from Orlando, Florida to Kuwait on another invoice that only cost \$2,422. Several of the expense reports contained multiple flights with economy class, business class, and first class segments, and the contractor did not segregate these costs. Therefore, the contractor's documentation was not sufficient to allow us to calculate the portion of the approximately \$70,000 that may be unallowable.

The contractor used its own travel policy to justify the upgraded airfare costs on interim invoices. The contractor stated that they used a requirement in their travel policy authorizing business class accommodations for flights over 10 hours as the metric in determining whether the FAR exception for "travel during unreasonable hours" applied. However, the contractor's travel policy was not appropriate to justify first or business class accommodations because the KOCT task orders contained a special provision in which the contractor agreed to use coach or similar accommodations for air travel. Further, the contractor provided a letter written by the DCMA Defense Corporate Executive in 2004 as justification for claiming the upgraded airfare costs. However, the letter specifically stated that the DCMA Defense Corporate Executive did not agree that flight times of more than 10 hours justified an exception to the FAR requirement to use standard or coach airfare. Instead, the letter stated that the company must comply with the FAR and individually document and justify the applicable conditions to be reimbursed for the business class costs. Additionally, the DCMA Defense Corporate Executive wrote the letter 5 years before PEO STRI awarded the KOCT task orders and did not address specific contract provisions regarding travel costs.

In some cases, the contractor did not provide written documentation justifying the upgraded accommodations as required by FAR 31.205-46(b). When the contractor did provide documentation, it consisted of a checklist of the conditions listed in the letter from the DCMA Defense Corporate Executive, including whether the travel was during unreasonable hours, as cited in FAR 31.205-46(b). The letter from the DCMA DCE stated that the reason that travel was required during unreasonable hours must be clearly presented on the employee's expense account or other document that is subject to a review or audit by the Government. However, the contractor circled "yes" next to each

of the conditions, without further documentation or justification. Therefore, the costs claimed for first and business class airline accommodations were potentially unallowable under the KOCT task orders.

PEO STRI contracting officials should review the claimed airfare costs under the KOCT task orders and comply with the procedures in FAR subpart 42.8, "Disallowance of Costs," if the contracting officer finds any part of the claimed costs unallowable. If the contracting officer finds the claimed costs for first and business class airline accommodations allowable, they should provide justification as to why the costs were allowable. Further, PEO STRI contracting officials should require RTSC to obtain written consent from the contracting officer to use airline accommodations other than economy class and inform all employees claiming travel expenses on the KOCT task orders of the requirement. DCAA auditors should develop and implement procedures to review interim invoices to verify that the Army does not continue to reimburse the contractor for potentially unallowable direct costs. Additionally, DCAA auditors should consider direct travel costs a high-risk area when reviewing interim invoices or performing incurred cost audits at RTSC.

Conclusion

Proper oversight of service contracts is essential for the Army to receive supplies and services in a cost effective and timely manner. Cost-reimbursement contracts require more in-depth reviews of interim invoices to ensure that costs relate to progress under the contract. The lack of interim invoice reviews for the KOCT task orders, valued at \$195.2 million, increases the risk that DoD funds are not used efficiently. ACORs are in the best position to assess the reasonableness of costs and expenditures on invoices. Therefore, PEO STRI personnel should have included interim invoice reviews in the QASP for the KOCT task orders to ensure that the Government is only paying for necessary supplies and services. Additionally, DCAA is responsible for determining the allowability for the contractor's claimed costs. Therefore, DCAA should take steps to verify that questioned costs claimed by RTSC are appropriately evaluated during incurred cost audits.

Management Comments on the Finding and Our Response

Defense Contract Audit Agency Comments

The Regional Director, Northeastern Region, Defense Contract Audit Agency, agreed and stated that DCAA has not audited RTSC incurred costs since 2005. However, he explained that there is not a direct relationship between payment on interim vouchers and incurred cost audits. The Regional Director stated that interim vouchers are paid as services or supplies are rendered by the contractor and incurred cost audits are performed after completion of the contractor's fiscal year. He explained that the completion of an incurred cost audit would not have prevented the payment of unallowable costs on interim invoices because payment would have occurred well in advance of the incurred cost audit.

Our Response

Our finding does not make a direct correlation between PEO STRI paying questioned travel costs and DCAA not having performed an incurred cost audit since 2005. We concluded that PEO STRI paid approximately \$70,000 in questioned travel costs because PEO STRI contracting and oversight personnel did not review contractor interim invoices, DCAA only performs administrative evaluations of interim invoices before approving them for payment, and DCAA had not performed an incurred cost audit at RTSC since 2005.

Recommendations, Management Comments, and Our Response

Revised Recommendation

As a result of management comments, we revised draft report Recommendation A.1.a to clarify the actions needed to review monthly charges on the Kuwait Observer Controller Team task order.

A.1. We recommend that the Principal Assistant Responsible for Contracting, Program Executive Office for Simulation, Training and Instrumentation, require the procuring contracting officer to:

a. Update the Kuwait Observer Controller Team task order quality assurance surveillance plan to require in-country oversight personnel review prime and subcontractor invoices before payment, or within 30 days of receipt of a proper invoice, and determine whether the supplies and services invoiced were necessary and reasonable to perform the task order and whether DoD received the supplies and services.

Assistant Secretary of Army (Acquisition, Logistics, and Technology) Comments

The Deputy for Acquisition and System Management, Office of the Assistant Secretary of the Army (Acquisition, Logistics, and Technology), responded for the Principal Assistant Responsible for Contracting, PEO STRI and disagreed with our recommendation. He stated that Wide Area Workflow is a DoD specific system for electronic acceptance and invoicing for DoD contracts. The Deputy explained that Wide Area Workflow was mandated by the 2001 Defense Authorization Act and implemented with DFARS clause 252.232.7003, "E-invoicing." He stated that invoices requiring DCAA review before payment are automatically routed to the cognizant auditor by the Wide Area Workflow system. The Deputy also stated that invoices of contractors with "direct bill" authority bypass DCAA and are routed directly to the paying office. The Deputy for Acquisition and System Management, Office of the Assistant Secretary of the Army (Acquisition, Logistics, and Technology), stated that the Office of the Under Secretary of Defense issued a memorandum, "Approving Payments Under Cost-Reimbursement, Time-and-Materials, and Labor-Hour Contracts," April 14, 2008, that stated for cost-reimbursement, time-and-materials, and labor hour contracts, DCAA

has the sole authority for verifying claimed cost and approving interim payment requests. He explained that even though the memorandum stated that CORs may review contractor's billing as part of their surveillance, there is no requirement to withhold a payment until a contracting officer or COR reviews the invoice to determine whether the charges were incurred and the supplies and services invoiced were necessary and reasonable. The Deputy for Acquisition and System Management, Office of the Assistant Secretary of the Army (Acquisition, Logistics, and Technology), stated that the current Warfighter FOCUS policy is for the project director to review invoices and billing back-up before task order close out. He explained that evaluating invoices and billings a year or longer after completion of the work complicates the process; therefore, PEO STRI officials revised the KOCT QASP to better define the frequency of the project director's review of billing information.

The Deputy for Acquisition and System Management, Office of the Assistant Secretary of the Army (Acquisition, Logistics, and Technology), stated that PEO STRI requires the contractor to submit a "request for resources" for supplies, services, or travel before incurring the expenditure for these task orders. He stated that this process allows the Government to review the expenditures before they are made to determine if they are necessary and reasonable to perform the effort.

Our Response

The comments from the Deputy for Acquisition and System Management, Office of the Assistant Secretary of the Army (Acquisition, Logistics, and Technology), were partially responsive. As a result of the comments, we revised draft report Recommendation A.1.a to clarify that in-country oversight personnel should review prime and subcontractor invoices before payment or within 30 days of receipt of a proper invoice to determine whether the supplies and services invoiced were necessary and reasonable to perform the task order and whether DoD received the supplies and services. While contracting officers and CORs are not required to review contractor invoices before payment, the Office of Federal Procurement Policy, "A Guide to Best Practices for Contract Administration," October 1994, states that the CORs function as the "eyes and ears" of the contracting officer by monitoring technical performance and reporting actual or potential problems to the contracting officer. The guide also states that CORs are in the best position to assess the reasonableness of costs and expenditures on vouchers and invoices. The guide goes on to state that CORs should conduct an in-depth review of invoices under cost reimbursement contracts to ensure that costs were not incurred prematurely and that costs related to the contract.

Additionally, in October 2011, PEO STRI officials stated that the "request for resources" tool was PEO STRI's validation that material purchases were within the scope of the task order, that the funds would be used for the task order, and that funds were available. PEO STRI officials also stated that the "request for resources" is a task order oversight tool used for tracking purposes; not for verifying task order costs. PEO STRI officials explained that the tool gives the Warfighter FOCUS project director and the customer oversight of the KOCT program. Therefore, we request that the Principal Assistant Responsible for Contracting, PEO STRI, reconsider his position and provide comments

in response to the final report on revised Recommendation A.1.a. Additionally, we request that the Principal Assistant Responsible for Contracting, PEO STRI, provide a date for completing the proposed actions.

b. Review the claimed airfare costs under the Kuwait Observer Controller Team task orders to determine whether the costs are allowable and either:

(1) **Follow the procedures in Federal Acquisition Regulation Subpart 42.8, “Disallowance of Costs,” if the procuring contracting officer finds the claimed costs unallowable or**

(2) **If the procuring contracting officer finds the claimed costs for first and business class accommodations allowable, provide justification as to why the costs were allowable.**

Assistant Secretary of Army (Acquisition, Logistics, and Technology) Comments

The Deputy for Acquisition and System Management, Office of the Assistant Secretary of the Army (Acquisition, Logistics, and Technology), responded for the Principal Assistant Responsible for Contracting, PEO STRI and agreed with our recommendations. He stated that charging the Government for business class airfare is not in accordance with the Warfighter FOCUS contract. The Deputy explained that the Warfighter FOCUS contract states that when it is necessary to use air or rail travel, the contractor agrees to use coach, tourist class, or similar accommodations to the extent that it is economical and successful in accomplishing the mission. He stated that the procuring contracting officer has requested separate audits from DCAA and RTSC to review all Warfighter FOCUS Southwest Asia travel. The Deputy also stated that the purpose of these audits was to identify all instances where RTSC used business or first class airfare to travel and to recoup those funds for the Government. The Deputy for Acquisition and System Management, Office of the Assistant Secretary of the Army (Acquisition, Logistics, and Technology), stated that once RTSC completes their internal audit, PEO STRI will forward that information to DCAA for verification through the DCAA formal audit process.

Our Response

The comments from Deputy for Acquisition and System Management, Office of the Assistant Secretary of the Army (Acquisition, Logistics, and Technology), were responsive. We request that the Principal Assistant Responsible for Contracting, PEO STRI, provide the final results of the RTSC and DCAA review and any actions taken by PEO STRI contracting officials based on the results of the audits. Additionally, we request that the Principal Assistant Responsible for Contracting, PEO STRI, provide a date for completing the proposed actions.

c. Require the contractor to obtain written consent from the contracting officer to use accommodations other than economy class and inform all employees claiming travel expenses on the KOCT task orders of the requirement.

Assistant Secretary of Army (Acquisition, Logistics, and Technology) Comments

The Deputy for Acquisition and System Management, Office of the Assistant Secretary of the Army (Acquisition, Logistics, and Technology), responded for the Principal Assistant Responsible for Contracting, PEO STRI, and did not address Recommendation A.1.c.

Management Comments Required

The Deputy for Acquisition and System Management, Office of the Assistant Secretary of the Army (Acquisition, Logistics, and Technology), did not provide comments for Recommendation A.1.c. We request that the Principal Assistant Responsible for Contracting, PEO STRI, provide comments in response to the final report on Recommendation A.1.c.

A.2. We recommend that the Resident Auditor, Raytheon Network Centric Systems Resident Office, Defense Contract Audit Agency:

a. Coordinate with the U.S. Army Program Executive Office for Simulation, Training, and Instrumentation contracting officer to develop and implement effective procedures to review cost vouchers submitted under contract W900KK-07-D-0001 and associated task orders to verify that the Army does not continue to reimburse the contractor for potentially unallowable direct costs.

Defense Contract Audit Agency Comments

The Regional Director, Northeastern Region, Defense Contract Audit Agency, responded for the Resident Auditor, Raytheon Network Centric Systems Resident Office, Defense Contract Audit Agency, and partially agreed with our recommendation. He stated that DCAA agreed with reviewing direct travel costs on contract W900KK-07-D-0001 and the associated task orders to verify that the Army does not continue to reimburse the contractor for potentially unallowable costs. However, the Regional Director stated that DCAA determined a review of individual cost vouchers is not the most effective way to implement the recommendation. He stated that doing a review of individual cost vouchers would cause untimely review cycles and not allow for payment to the contractor in a timely manner. The Regional Director stated that the Resident Auditor, Integrated Defense Systems Resident Office, will establish an incurred cost support package for FY 2011 to test direct travel costs. He stated that the contractor submitted their FY 2011 incurred cost claim on June 30, 2012, and that DCAA will use the submission to draw a sample of direct travel costs to test for compliance with FAR 31, "Contract Cost Principles and Procedures," and contract terms. He noted that the audit office will coordinate with PEO STRI before starting the audit to identify any contract terms related to direct travel. The Regional Director explained that issues identified in the direct cost testing will be brought to the attention of PEO STRI and DCAA will issue a

Form 1, "Notice of Contract Costs Suspended and/or Disapproved," for any billed unallowable direct costs.

Our Response

The comments from the Regional Director, Northeastern Region, Defense Contract Audit Agency, were partially responsive. The Regional Director's comments did not address actions DCAA will take to review cost vouchers before FY 2011 and during future fiscal years under contract W900KK-07-0001 and the associated task orders. The Regional Director's comments only addressed actions DCAA planned to take during FY 2011. Additionally, the comments did not contain a date of when the proposed actions will be completed. Therefore, we are requesting that the Resident Auditor, Raytheon Network Centric Systems Resident Office, Defense Contract Audit Agency, provide additional comments in response to the final report on Recommendation A.2.a.

b. Include direct travel costs as a high risk area when reviewing cost vouchers on contracts awarded to Raytheon Technical Services Company.

Defense Contract Audit Agency Comments

The Regional Director, Northeastern Region, Defense Contract Audit Agency, responded for the Resident Auditor, Raytheon Network Centric Systems Resident Office, Defense Contract Audit Agency, and partially agreed with our recommendation. He referenced DCAA planned actions for Recommendation A.2.a. Additionally, he stated that the assessment of direct travel costs as high risk will be made once the DCAA auditors have completed testing procedures to determine the allowability, allocability, and reasonableness of the costs. The Regional Director explained that the DoD OIG finding on one voucher does not provide enough evidence to assess the costs as high risk. He added that if the audit testing proves that the contractor billed significant unallowable direct travel costs, the auditor will assess the travel costs as high risk.

Our Response

The comments from the Regional Director, Northeastern Region, Defense Contract Audit Agency, were partially responsive. The comments did not contain a date for completing the proposed actions and did not define what DCAA would consider as significant unallowable direct travel costs. Therefore, we are requesting that the Resident Auditor, Raytheon Network Centric Systems Resident Office, Defense Contract Audit Agency, provide additional comments in response to the final report on Recommendation A.2.b.

A.3. We recommend that the Resident Auditor, Raytheon Integrated Defense Systems Resident Office, Defense Contract Audit Agency, consider direct travel costs as a high risk area when planning and performing audit assignments on Raytheon Technical Services Company.

Defense Contract Audit Agency Comments

The Regional Director, Northeastern Region, Defense Contract Audit Agency, responded for the Resident Auditor, Raytheon Integrated Defense Systems Resident Office, Defense

Contract Audit Agency, and partially agreed with our recommendation. He referenced DCAA planned actions for Recommendation A.2.a and A.2.b. Additionally, the Regional Director stated that a determination of direct travel risk will be made after the DCAA auditors have completed testing procedures to determine the allowability, allocability, and reasonableness of the costs. He explained that if the audit testing proves that the contractor billed significant unallowable direct travel costs, the auditor will assess the travel cost as high risk.

Our Response

The comments from the Regional Director, Northeastern Region, Defense Contract Audit Agency, were partially responsive. The comments did not contain a date for completing the proposed actions and did not define what DCAA would consider as significant unallowable direct travel costs. Therefore, we are requesting that the Resident Auditor, Raytheon Integrated Defense Systems Resident Office, Defense Contract Audit Agency, provide additional comments in response to the final report on Recommendation A.3.

Finding B. PEO STRI Potentially Violated the Antideficiency Act

The PEO STRI contracting officer obligated approximately \$9.7 million of FY 2008 Iraq Security Forces funds on the KOCT task order when the task order did not provide training or assistance to the Iraq Security Forces. This occurred because the PEO STRI contracting officer did not verify the purpose of the funding before obligating funding to the task order. As a result, the PEO STRI contracting officer used funds for a purpose other than intended by law and potentially violated the Antideficiency Act.

Noncompliance With the Purpose Statute May Lead to an Antideficiency Act Violation

The Antideficiency Act, prescribed in sections 1341, 1342, and 1517 of title 31, United States Code, prohibits obligations and expenditures in excess of or before an appropriation. Additionally, section 1301, title 31, United States Code, known as the Purpose Statute, requires that appropriations be used only for the purpose that Congress intended. These statutory provisions enforce the Constitutional budgetary powers entrusted to Congress with respect to the purpose, time, and amount of expenditures made by the Federal Government. Noncompliance with section 1301, the Purpose Statute, may lead to an Antideficiency Act violation.

PEO STRI Potentially Violated the Purpose Statute

The PEO STRI contracting officer obligated approximately \$9.7 million of Iraq Security Forces funds on task order 138. However, Congress required Iraq Security Forces funds to be used to support the Iraq Security Forces, and the task order did not provide assistance to the security forces of Iraq.

Iraq Security Forces Fund

Congress established the Iraq Security Forces fund to enable the Iraq Security Forces to maintain internal security with police and defense forces, while building foundational capabilities for the Iraqi military forces to provide external defense before the U.S. forces withdraw from Iraq. DoD used the Iraq Security Forces fund to train, equip, and maintain all elements of the Iraqi Security Forces, including the Iraqi Army, Air Force, and Police Force.

Public Law 110-181, “The National Defense Authorization Act for Fiscal Year 2008,” section 1512, “Iraq Security Forces Fund,” January 28, 2008, required that Iraq Security Forces funds only be used to provide assistance to the security forces of Iraq. Additionally, the FY 2008 National Defense Authorization Act stated that the type of assistance provided may include the procurement of equipment, supplies, services, training, facility and infrastructure repair, renovation, and construction. Further, the FY 2008 National Defense Authorization Act required that the funds be obligated by September 30, 2009.

Contract Obligations

On July 1, 2009, the PEO STRI contracting officer awarded task order 138 to RTSC for the KOCT training effort. The task order required the contractor to support all training and training related tasks at specifically designated times and locations within the U.S. Central Command area of responsibility. However, the task order did not reference or require any type of training or assistance be provided to the Iraq Security Forces. Additionally, PEO STRI program personnel stated that Iraq Security Forces were never trained on task order 138.

The PEO STRI contracting officer obligated FY 2008 Iraqi Security Forces funds to task order 138 to allow work to continue on the KOCT task order. According to e-mails provided by PEO STRI contracting personnel, the task order customer, U.S. Army Central Command, allocated all of its FY 2009 funding to other requirements and did not have funding available to fund the continuation of work on the KOCT task order. PEO STRI program and contracting personnel stated that funding had to be obligated to the KOCT task order in order for work to continue on the base year of the task order. PEO STRI program and contracting personnel stated that, in accordance with FAR clause 52.232-22, "Limitation of Funds," if funding was not obligated on task order 138, RTSC would be required to cease all work on the task order. FAR 52.232-22(b) requires that the contractor only perform work on the contract up to the point that does not exceed the total amount allotted by the Government to the contract. The PEO STRI contracting officer stated that she obligated approximately \$9.7 million of funding to the task order to ensure continuity of services on the task order. She believed the funding used was Operations and Maintenance; however, the funding was actually Iraq Security Forces funding, and, therefore, not permitted to be obligated to the task order.

Task order 138 did not provide training or assistance to the security forces of Iraq;

Task order 138 did not provide training or assistance to the security forces of Iraq; therefore, Iraq Security Forces funds should not have been obligated on task order 138.

therefore, Iraq Security Forces funds should not have been obligated on task order 138. By obligating \$9.7 million of FY 2008 Iraq Security Forces funds on task order 138, the PEO STRI contracting officer potentially violated the purpose statute, and, consequently, may have potentially violated the Antideficiency Act.

Contracting Officer Did Not Verify the Purpose of Funds

The PEO STRI contracting officer did not verify the purpose of the funding before obligating it to the task order. Instead, the contracting officer relied on a funding spreadsheet that PEO STRI contracting and program personnel used to track and obligate funding on the entire Warfighter FOCUS contract.

PEO STRI program and contracting personnel developed a spreadsheet to track all funding that PEO STRI received from customers and obligated on the Warfighter FOCUS contract. The funding spreadsheet did not specify the purpose of the funds or whether there were any restrictions on the use of funds. The funding spreadsheet listed

only the funding type (for example, Operations and Maintenance or Global War on Terror), which corresponded to a military interdepartmental purchase request number and a specific job order number. The funding spreadsheet incorrectly listed Iraq Security Forces funds as operations and maintenance funds.

Additionally, during discussions with PEO STRI finance and contracting officials, they stated they were not aware of the restrictions placed on the use of Iraq Security Forces funds when the funds were obligated to the KOCT task order. Finance and contracting officials stated they believed that Iraq Security Forces funds could be used to fund all contingency training operations, not only to provide assistance and training to the Security Forces of Iraq.

PEO STRI contracting officials did not have processes and procedures in place that required the contracting officer to verify the purpose of funding before obligating the funds to a contract. DoD Regulation 7000.14-R “DoD Financial Management Regulation” (FMR), volume 14, chapter 1, paragraph 01205 G “Administrative Control of Funds,” requires that officials responsible for Government funds must ensure that decisions to obligate funds comply with the provisions of the Antideficiency Act by careful review and examination of the facts before obligating the funds. The PEO STRI contracting officer should have reviewed the type of funding that she was obligating to the task order to make sure that it was being used for its required purpose. By not verifying the funding type and relying on an incorrect spreadsheet, the PEO STRI contracting officer obligated the wrong type of funds on the KOCT task order and potentially violated the Antideficiency Act. Consequently, PEO STRI contracting officials should develop and execute written processes and procedures that require the contracting officer to review and examine all funds before obligating funds to a contract to ensure that all obligations comply with provisions of the Antideficiency Act, as required by DoD FMR volume 14, chapter 1, “Administrative Control of Funds.”

Conclusion

The PEO STRI contracting officer potentially violated the Purpose Statute by inappropriately obligating approximately \$9.7 million of Iraq Security Forces funds on task order 138 when the task order did not provide assistance to the security forces of Iraq. By using funds for other than the purpose identified by law, the PEO STRI contracting officer potentially violated the Antideficiency Act. Further, PEO STRI officials awarded the Warfighter FOCUS contract with a ceiling price of approximately \$11.2 billion to provide operations, maintenance, systems integration, and engineering support services to the U.S. Army for live, virtual, and constructive training. To support the Warfighter FOCUS contract, PEO STRI contracting officers obligated several types of funding to the contract. Therefore, it is critical that the PEO STRI contracting officer identify and verify the type of funding being obligated to the Warfighter FOCUS contract to ensure that the funding is being used for its required purpose.

PEO STRI Issued a Memorandum to Report the Potential Violation

On February 9, 2012, the Program Executive Officer for Simulation, Training and Instrumentation, U.S. Army, issued a memorandum titled, “Potential Antideficiency Act Violation,” to the Assistant Secretary of the Army (Acquisition, Logistics, and Technology). The Program Executive Officer issued the memorandum in accordance with DoD Regulation 7000.14-R, “DoD Financial Management Regulation,” volume 14, chapter 3, paragraph 030101 “Preliminary Reviews of Potential Violations.” DoD FMR volume 14, chapter 3 requires that within 2 weeks of discovering a potential Antideficiency Act violation, the activity concerned should report the potential violation through command channels to the applicable Office of the Assistant Secretary of the Military Department for Financial Management and Comptroller⁷. The memorandum notified Department of Army officials that the DoD OIG audit team discovered an inappropriate obligation of Iraq Security Forces funds, valued at approximately \$9.7 million, used to fund 1 year of the KOCT task order. The memo stated that the improper obligation of the funds resulted in an alleged Antideficiency Act violation. According to the U.S. Army Antideficiency Act Program Manager, the Office of the Assistant Secretary of the Army (Financial Management and Comptroller) initiated a preliminary review of the potential Antideficiency Act violation on April 1, 2012. The preliminary review was completed on May 24, 2012.

Recommendations, Management Comments, and Our Response

B.1. We recommend that the Office of the Assistant Secretary of the Army (Financial Management and Comptroller), complete the preliminary review of the potential Antideficiency Act violation within 90 days as required by DoD Regulation 7000.14-R, Financial Management Regulation, volume 14, chapter 3, “Preliminary Reviews of Potential Violations,” and provide the results of the preliminary investigation to the DoD Office of Inspector General.

Assistant Secretary of the Army (Financial Management and Comptroller) Comments

The Deputy Assistant Secretary of the Army (Financial Operations), responded for the Office of the Assistant Secretary of the Army (Financial Management and Comptroller), and agreed with our recommendation. He stated that the Office of the Assistant Secretary of the Army (Acquisition, Logistics, and Technology) completed a preliminary investigation on May 24, 2012, and determined that there was no longer a deficiency in either the Iraq Security Forces funds or the Overseas Contingency Operation appropriations and that the potential violations have been avoided. The Deputy explained that accounts have been adjusted and corrective actions are awaiting a review for legal sufficiency. He also stated that the Office of the Deputy Assistant Secretary of the Army

⁷ For the Department of the Army, the applicable office is the Office of the Assistant Secretary of the Army (Financial Management and Comptroller).

(Financial Operations) will provide the DoD OIG with the closure memorandum when it is signed.

Our Response

The comments from the Deputy Assistant Secretary of the Army (Financial Operations) were responsive. We are requesting that the Office of the Assistant Secretary of the Army (Financial Management and Comptroller) provide our office with a copy of the closure memorandum that outlines the accounts that have been adjusted and that details how the potential violations were avoided.

B.2. We recommend that the Principal Assistant Responsible for Contracting, Program Executive Office for Simulation, Training, and Instrumentation, develop and execute written processes and procedures that require the contracting officer to review and examine all funds before obligating funds to a contract to ensure that all obligations comply with provisions of the Antideficiency Act, as required by DoD FMR volume 14, chapter 1, “Administrative Control of Funds.”

Assistant Secretary of the Army (Acquisition, Logistics, and Technology) Comments

The Deputy for Acquisition and System Management, Office of the Assistant Secretary of the Army (Acquisition, Logistics, and Technology), responded for the Principal Assistant Responsible for Contracting, PEO STRI and agreed with our recommendation. He stated that PEO STRI Acquisition Instruction AI-014, “Purchase Request Routing and Processing for Contract Actions,” dated May 27, 2010, outlines the written processes and procedures, including the roles and responsibilities of the funds certifying official at PEO STRI. The Deputy stated that all purchase requests are reviewed by three financial officers before providing the funds to the contracting officer to be placed on contract. He stated that the program analysts check the purchase request for appropriation, time, purpose, and amount to prevent any misuse of funds. The Deputy explained that the budget analysis and certifying official both review the purchase request to ensure it includes the correct data before forwarding it on to the contracting officer. He stated that the contracting officer then receives and reviews the purchase request to ensure it includes correct data, appropriate attachments, and proper approvals before assigning it to a contracting specialist for execution.

The Deputy for Acquisition and System Management, Office of the Assistant Secretary of the Army (Acquisition, Logistics, and Technology), explained that PEO STRI initiated steps to ensure that future errors are avoided, including reviewing fund types and problem areas with certifying officials, providing fiscal law training to all PEO STRI resource managers, and incorporating Antideficiency Act avoidance topics in business manager’s weekly meetings. The Deputy also stated that an after action review of the incident was conducted in February 2012 and that PEO STRI is developing an “Introduction to Fiscal Law” class that will be provided to all personnel.

Our Response

The comments from the Deputy Assistant Secretary of the Army (Financial Operations) were responsive, and no additional comments are required.

Appendix. Scope and Methodology

We conducted this performance audit from September 2011 through May 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.

This is the third in a series of audits on contract W900KK-07-D-0001, the Warfighter FOCUS contract. We gathered available Warfighter FOCUS contract documentation covering the period from June 2007 through February 2012. We focused our review to determine whether PEO STRI obtained fair and reasonable prices for goods and services on the KOCT task orders and appropriately developed contractor surveillance and oversight processes and procedures for the task orders. We reviewed the United States Code, the FAR, the DFARS, the Federal Travel Regulation, the Joint Travel Regulation, the DoD FMR, the Department of State Standardized Regulation, the DCAA Contract Audit Manual, and the DCMA Guidebook. Additionally, we conducted site visits and interviewed personnel at the following locations:

- Program Executive Office for Simulation, Training, and Instrumentation, Orlando, Florida;
- Raytheon Technical Services Company, Orlando, Florida;
- Raytheon Technical Services Company, Dulles, Virginia;
- Raytheon Financial Shared Services, Plano, Texas;
- MPRI, Alexandria, Virginia;
- Defense Contract Audit Agency, Dulles, Virginia;
- Defense Contract Audit Agency, Plano, Texas; and
- Defense Contract Audit Agency, Falls Church, Virginia.

Additionally, we interviewed Defense Contract Management Agency personnel from Dulles, Virginia, and Woburn, Massachusetts.

The audit team examined interim invoices submitted by RTSC for provisional payment on the KOCT task orders 138, 238, and 338. As of August 11, 2011, RTSC submitted 37 interim invoices, with a total value of \$118.9 million. Of the 37 interim invoices, the audit team reviewed documentation for 1 RTSC invoice (RTSC invoice 90890718, valued at approximately \$5.4 million) for task order 238 to determine whether the costs claimed on that invoice were supported. During that review, we questioned airfare costs claimed by the prime contractor and subsequently reviewed all airfare costs claimed by the prime contractor on all the invoices submitted for the KOCT task orders, as of April 9, 2012.

We reviewed contract file documentation for the KOCT task orders, including contract and subcontractor proposals; Government proposal reviews; price negotiation

memoranda; oversight documents; DCMA memoranda; DCAA memoranda and reports; contractor and subcontractor invoices and supporting documentation; and e-mail correspondence from June 2007 through February 2012 for the KOCT task orders with an estimated value of \$195.2 million.

Use of Computer-Processed Data

We relied on computer-processed data from the Electronic Document Access Web site. Electronic Document Access is a Web-based system that provides secure online access, storage, and retrieval of contracts and contract modifications to authorized users throughout DoD. We used documents retrieved from Electronic Document Access to review the Warfighter FOCUS basic contract background. We compared the contract documentation obtained from Electronic Document Access to the contract documentation in the contract file at PEO STRI and verified that the documentation we obtained from Electronic Document Access was accurate. The Electronic Document Access Web site was sufficiently reliable for the purpose of obtaining background information on the Warfighter FOCUS basic contract.

We also relied on computer-processed data from Wide Area Workflow to perform this audit. Wide Area Workflow is a secure Web-based system for electronic invoicing, receipt and acceptance. We retrieved interim invoices from the Wide Area Workflow system and verified the data against interim invoices and supporting documentation that the contractor provided. We determined that data obtained from Wide Area Workflow was accurate and sufficiently reliable to accomplish our audit objectives.

Prior Coverage

During the last 5 years, the Department of Defense Inspector General (DoD IG) issued two reports discussing the Warfighter FOCUS contract. Unrestricted DoD IG reports can be accessed at <http://www.dodig.mil/audit/reports>.

DoD IG

DoD Inspector General Report No. D-2011-113, “Improved Pricing and Oversight Needed for the Afghan Air Force Pilot and English Language Training Task Order,” September 30, 2011

DoD Inspector General Report No. D-2011-066, “Incomplete Contract Files for Southwest Asia Task Orders on the Warfighter Field Operations Customer Support Contract,” June 1, 2011

Assistant Secretary of the Army (Financial Management and Comptroller) Comments



REPLY TO
ATTENTION OF

DEPARTMENT OF THE ARMY
OFFICE OF THE ASSISTANT SECRETARY OF THE ARMY
FINANCIAL MANAGEMENT AND COMPTROLLER
109 ARMY PENTAGON
WASHINGTON DC 20310-0109

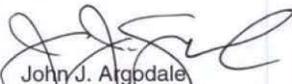
JUN 20 2012

MEMORANDUM THRU Auditor General, Department of the Army, 3101 Park Center Drive, Alexandria, Virginia 22302-1596

FOR Inspector General, Department of Defense, Acquisition and Contract Management, 4800 Mark Center Drive, Alexandria, Virginia 22350-1500

SUBJECT: Improved Oversight, but No Invoice Reviews and Potential Antideficiency Act Violation May Have Occurred on the Kuwait Observer Controller Team Task Orders (Project No. D2011-D000AS-0287.000)

1. We appreciate the opportunity to provide comments on the subject report.
2. The audit asserts that the U.S. Army Program Executive Office for Simulation, Training, and Instrumentation (PEO STRI) potentially violated the Purpose Statute by inappropriately obligating Iraq Security Forces Funds (ISFF) and Overseas Contingency Operation (OCO) funds in violation of 31 U.S.C. 1301a (the Purpose Statute).
3. According to Recommendation B.1, the Office of the Assistant Secretary of the Army (Financial Management and Comptroller) was asked to ensure completion of the preliminary review of the potential Antideficiency Act violation and provide the results of the preliminary investigation to the DoD Office of Inspector General.
4. Army concurs. The Assistant Secretary of the Army (Acquisition, Logistics and Technology) completed a preliminary investigation on May 24, 2012 that determined that there is no longer a deficiency in either the ISFF or the OCO appropriations and that the potential violations have been avoided. Accounts have been adjusted and the corrective actions are awaiting a review for legal sufficiency. We will provide your office with the closure memorandum when it is signed.
5. My point of contact for this report is [REDACTED] who can be reached at [REDACTED]


John J. Argbdale
Deputy Assistant Secretary of the Army
(Financial Operations)

Assistant Secretary of the Army (Acquisition, Logistics, and Technology) Comments



DEPARTMENT OF THE ARMY
OFFICE OF THE ASSISTANT SECRETARY OF THE ARMY
ACQUISITION LOGISTICS AND TECHNOLOGY
103 ARMY PENTAGON
WASHINGTON DC 20310

JUN 27 2012

SAAL-SSS

MEMORANDUM FOR INSPECTOR GENERAL, DEPARTMENT OF DEFENSE
██████████, 400 ARMY NAVY DRIVE, ARLINGTON VA 22202-4704

SUBJECT: Response to Department of Defense Office of Inspector General (DoDIG) Draft Report, Improved Oversight, but No Invoice Reviews and Potential Antideficiency Act Violation May Have Occurred on the Kuwait Observer Controller Team Task Orders, Project No. D2011-D000AS-0287.000 dated 30 May 12

1. The DoDIG requested that the Principal Assistant Responsible for Contracting (PARC) at Program Executive Office for Simulation, Training and Instrumentation (PEO STRI) provide comments on the Draft Report, Project No. D2011-D000AS-0287.000.
2. Thank you for the opportunity to review and comment on the DoDIG Draft Report on PEO STRI potential violation of the Antideficiency Act. The DoDIG Auditors provided four recommendations for the PARC at PEO STRI to improve oversight of service contracts and ensure that all obligations comply with provisions of the Antideficiency Act.
3. I am providing the Official Army Position on behalf of the Assistant Secretary of the Army (Acquisition, Logistics and Technology) (ASA(ALT)) based on the enclosed comments provided by the PARC at PEO STRI. The ASA(ALT) has reviewed the DoDIG recommendations in the Draft Report, and concurs with the response provided by the PEO STRI PARC on the DoDIG recommendations. The ASA(ALT) has no objections to the draft report and recommends it be made final and published.
4. The point of contact is ██████████ or e-mail: ██████████

Encl


HAROLD J. GREENE
Brigadier General (P), GS
Deputy for Acquisition
and Systems Management



DEPARTMENT OF THE ARMY
PROGRAM EXECUTIVE OFFICE
SIMULATION, TRAINING AND INSTRUMENTATION
12350 RESEARCH PARKWAY
ORLANDO, FLORIDA 32826-3276

REPLY TO
ATTENTION OF

SFAE-STRI-K

21 June 2012

MEMORANDUM FOR Inspector General, Department of Defense [REDACTED]
400 Army Navy Drive, Arlington, VA 22202-4704

SUBJECT: Response to Department of Defense Office of Inspector General (DoDIG) Discussion Draft for Project No. D2011-D000AS-0287.000, "Improved Oversight But No Invoice Reviews and Potential Antideficiency Act Violation on the Kuwait Observer Controller Team Task Orders.", dated 30 May 2012

1. This document responds to the subject report issued on 30 May 2012. "Improved Oversight But No Invoice Reviews and Potential Antideficiency Act Violation on the Kuwait Observer Controller Team Task Orders (Project No. D2011-D000AS-0287.000)." As requested, we have considered the recommendations and provide the following comments and planned actions.

DoDIG Recommendation A.1.a: *We recommend that the Principal Assistant Responsible for Contracting at the Program Executive Office for Simulation, Training and Instrumentation, require the procuring contracting officer to:*

*a. Update the Kuwait Observer Controller Team task order quality assurance surveillance plan to require that the in-country oversight personnel review prime and subcontractor invoices **before** payment and determine whether the charges were incurred and the supplies and services invoiced were necessary and reasonable to perform the task order.*

PEO STRI Response: Non-concur with comments.

The Wide Area Workflow (WAWF) is a DoD-specific system for electronic acceptance and invoicing on DoD contracts. WAWF was mandated by the 2001 Defense Authorization Act and implemented via DFARS 252.232-7003 (E-Invoicing). The Office of the Under Secretary of Defense issued a memorandum on 14 April 2008 titled, "Approving Payments under Cost-Reimbursement, Time-and-Materials, and Labor-Hour Contracts." This memorandum states that "The purpose of this memorandum is to reiterate the Department's policy on approving payments under cost-reimbursement, time-and-materials (T&M), and labor hour (LH) contracts. For these contract types DCAA has sole authority for verifying claimed costs and approving interim payment requests." Invoices requiring DCAA review prior to payment are automatically routed to the cognizant auditor by WAWF. Invoices of contractors with "Direct Bill" authority bypass DCAA and are routed directly to the paying office (DFAS). Even though the above referenced memorandum states that a Contracting Officer Representative (COR) may review contractor's billings as part of their surveillance, there are no provisions to withhold payment until a Contracting Officer or a COR has had an opportunity to review the "invoices **before** payment to

Revised
Recommendation
A.1.a

SUBJECT: Response to Department of Defense Office of Inspector General (DoDIG) Discussion Draft for Project No. D2011-D000AS-0287.000, "Improved Oversight But No Invoice Reviews and Potential Antideficiency Act Violation on the Kuwait Observer Controller Team Task Orders.", dated 30 May 2012

determine whether the charges were incurred and the supplies and services invoiced were necessary and reasonable". The current WFF policy is for the Project Director (PD) to review the invoices and billing back-up prior to the effort close out. We recognize that evaluating invoices and billings a year or more after the fact complicates the process and have therefore decided to revise the Quality Assurance Surveillance Plan (QASP) to better define the frequency of the PD's reviews of the billing information. To help facilitate this review, the Deputy Program Manager for Field Operations has revised the WFF Award Fee Plan to incentivize Raytheon Technical Service Company (RTSC) to provide faster and more "user-friendly" information on all cost and time and material efforts (including billing back-up).

PEO STRI does take an additional step on this Task Order (T.O.) by requiring RTSC to submit a "Request for Resources" in writing for supplies, services, or travel prior to any expenditures. This process allows the government to review the expenditures, including the estimated costs, before they are made, to determine if they are *necessary and reasonable to perform* the effort.

DoDIG Recommendation A.1.b and c:

b. Review the claimed airfare costs under the Kuwait Observer Controller Team task orders to determine whether the costs are allowable and either:

(1) Follow the procedures in Federal Acquisition Regulation Subpart 42.8, "Disallowance of Costs." If the procuring contracting officer finds the claimed costs unallowable or

(2) If the procuring contracting officer finds the claimed costs for first and business class accommodations allowable, provide justification as to why the costs were allowable.

c. Require the contractor to obtain written consent from the contracting officer to use accommodations other than economy class and inform all employees claiming travel expenses on the KOCT task orders of the requirement.

PEO STRI Response: Concur.

PEO STRI agrees with the DoD-IGs recommendation. Charging the government for business class air fare is not in accordance with the WFF contract. Clause H.18 (5252.232-9509 REIMBURSEMENT OF TRAVEL, PER DIEM, AND SPECIAL MATERIAL COSTS) states in paragraph (c)(3) that, "The contractor agrees, in the performance of necessary travel, to use the lowest cost mode commensurate with the requirements of the mission as set forth in the basic contract and in accordance with good traffic management principles. When it is necessary to use

SUBJECT: Response to Department of Defense Office of Inspector General (DoDIG) Discussion Draft for Project No. D2011-D000AS-0287.000, "Improved Oversight But No Invoice Reviews and Potential Antideficiency Act Violation on the Kuwait Observer Controller Team Task Orders.", dated 30 May 2012

air or rail travel, the contractor agrees to use coach, tourist class, or similar accommodations to the extent consistent with the successful and economical accomplishment of the mission for which the travel is being performed.

Based on the preliminary information provided to PEO STRI during the IG's exit interview on 07 February 2012, the PCO requested separate audits from both DCAA and RTSC to look at all WFF Southwest Asia travel. The purpose of the audit request was to identify all instances where a RTSC, Warrior Training Alliance (WTA) traveler utilized a business or first class airfare and to recoup those monies for the government. RTSC has identified a preliminary set of seven invoices that have business class travel associated with them. Once RTSC's internal audit is completed, PEO STRI will forward that information to DCAA for verification in DCAA's formal audit. (Note: RTSC did not identify any travel claims where the traveler required any special accommodations necessitating a business class fare.)

DoDIG Recommendation B.2: *We recommend that the Principal Assistant Responsible for Contracting at the Program Executive Office for Simulation, Training, and Instrumentation develop and execute written processes and procedures that require the contracting officer to review and examine all funds before obligating funds to a contract to ensure that all obligations comply with provisions of the Antideficiency Act, as required by DoD FMR volume 14, chapter 1, "Administrative Control of Funds."*

PEO STRI Response: Concur with comments.

PEO STRI agrees that the DoD Financial Management Regulations requires that proper processes and procedures are in place to examine all obligations before the funds are added to a contract. PEO STRI Acquisition Instruction AI-014, "Purchase Request Routing and Processing for Contract Actions" (Attachment 1) outlines the written processes and procedures including the roles and responsibilities of the funds Certifying Official at PEO STRI. It should be noted that the Contracting Officer at PEO STRI is not the funds Certifying Official. In fact, all purchase requests are reviewed by three specially trained financial officials prior to providing the funds to the Contracting Officer to be placed on contract. The Program Analysts (PAs) check the Purchase Request (PR) for appropriation, time, purpose, and amount to prevent any misuse of funds; enters the appropriate Program Job Order Number (JON), Element of Resource (EOR), and DOD Activity Address Code (DODAAC) in the "Comments" section for the Budget Analysts (BAs) who review the PR to ensure it includes the correct data. The BA's enter the appropriate line(s) of accounting, JON, and funding amount in the "Line Item Detail Funding" section based on the information provided by the PA; checks that funds are appropriate for the allotment(s) provided and available balances are sufficient to cover the estimated cost of the procurement. And finally, the Certifying Official reviews the PR, certifies funds are available and appropriate for use in fulfillment of the requested procurement, and approves or rejects the PR. The

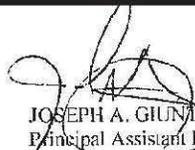
SUBJECT: Response to Department of Defense Office of Inspector General (DoDIG) Discussion Draft for Project No. D2011-D000AS-0287.000, "Improved Oversight But No Invoice Reviews and Potential Antideficiency Act Violation on the Kuwait Observer Controller Team Task Orders.", dated 30 May 2012

Contracting Officer then receives and reviews the PR in PD2 to ensure it includes correct data, appropriate attachments, and proper approvals prior to workload assignment to a Contract Specialist for execution. PEO STRI is/has taken the following steps to ensure that future errors are avoided:

- a. An After Action Review (AAR) on this incident was conducted in mid-February 2012.
- b. Increased emphasis on the contract action tracking tool in order to provide early identification of requirements which must be on contract prior to the end of the fiscal year.
- c. We have reinforced emphasis on an Integrated Product Team (IPT) approach to service contracts to include participation from Resource Managers.
- d. A thorough review was conducted with all Certifying Officials to review the fund types and potential problem areas.
- e. Fiscal Law training was provided to all PEO STRI Resource Managers, not just Certifying Officials.
- f. ADA avoidance topics have been incorporated in discussions during Business Manager's weekly meeting with assigned Financial Analysts.
- g. An "Introduction to Fiscal Law" class is currently under development, to be provided to all personnel, regardless of discipline.

2. Questions regarding this response should be directed to [REDACTED]

Encl


JOSEPH A. GIUNTA, JR.
Principal Assistant Responsible
for Contracting

DEPARTMENT OF THE ARMY
PROGRAM EXECUTIVE OFFICE
SIMULATION, TRAINING AND INSTRUMENTATION
12350 RESEARCH PARKWAY
ORLANDO, FL 32826-3276

SFAE-STRI-K

27 May 2010

ACQUISITION INSTRUCTION (AI) 014

SUBJECT: Purchase Request (PR) Routing and Processing for Contract Actions

1. **PURPOSE.** The purpose of this AI is to delineate procedures and internal policies for acquisition purchase requests routed within the Program Executive Office for Simulation, Training and Instrumentation (PEO STRI).

2. **SCOPE.** This instruction applies to all PEO STRI government and support contractor personnel responsible for generating and processing requests for contract actions on locally awarded contracts. This AI supersedes Standard Operating Procedure (SOP) 70-1-2 dated 20 September 2004.

3. REFERENCES.

- a. Department of the Army Regulation (AR) 5-14, Management of Contracted Advisory and Assistance Services
- b. PRweb Functional User's Guide
- c. PRweb User Self Registration Instructions

4. DEFINITIONS.

- a. **Purchase Request** – The PR is the principal document supporting the request for contract action.
- b. **Procurement Desktop Defense (PD2)**- The contract writing system to which AcquiLine PRweb interfaces.
- c. **Originator** – The person assigned within each Project Manager (PM) office/Directorate with the responsibility to create a PR for their organization, assign the PR number, and ensure proper routing of the PR.

ACQUISITION INSTRUCTION (AI) 014

SUBJECT: Purchase Request Routing and Processing for Contract Actions

d. Program Group – The program group consists of the Originator, Contract Specialist, Associate Chief of Acquisition Logistics or Lead Acquisition Logistics Point of Contact (POC), Project Director (PD), and Chief Engineer (CE).

e. Funding Group – The funding group consists of Budget Analysts (BAs), Program Analysts (PAs), and Certifying Officials.

5. POLICY.

a. PEO STRI personnel and support contractors must use AcquiLine PRweb, a web-based PR generation and routing application, to process all acquisition PRs/procurement packages within PEO STRI.

b. All contract actions require a PR processed in AcquiLine PRweb – including no cost (Admin Mod) packages. All supporting documentation for the actions being initiated shall be attached to the package to determine the appropriate type and use of funds for the work to be performed. A general list of recommended attachments for various types of contract actions is provided as Enclosure 1. The Procuring Contracting Officer (PCO) reserves the right to request less or additional documents as the situation demands.

NOTICE OF RESTRICTIONS: The following attachment types are acceptable to be uploaded and viewed in PRweb: Microsoft Word® (.doc or .rtf), Microsoft PowerPoint® (.ppt), Microsoft Excel® (.xls), and Adobe Acrobat® (.pdf) attachments. Documents created using Microsoft Office 2007 must be saved in the 97-2003 format in order to be uploaded to PRweb. Documents saved in Microsoft Office 2007 format (such as .docx, .xlsx, .pptx) are not compatible with PRweb. Documents in formats other than those listed above which are required for the package should be converted to an acceptable format and attached, if possible. If a document cannot be converted, it must be emailed to each person in the routing chain. The combined file size of all attachments on a PR package must be less than two Megabytes (MB).

c. All documents shall be coordinated with the PM's responsible Integrated Project Team (IPT) members and Chief Engineer (as applicable) before attaching to the PR.

d. Significant changes shall not be made to any of the original attached documents after required reviewers have approved the documents. In the event changes are absolutely essential prior to award, direct coordination and concurrence with the PD shall be obtained.

6. **RESPONSIBILITIES.** Each person in the PR routing chain has the responsibility to approve or reject the transmitted PR. It is incumbent on the originator of the PR to establish the routing list as recommended in Enclosure 2, together with the person's area of responsibility (BA, PA, PD, etc.) If a PR is rejected, rationale shall be provided by the rejector in the "Comments" section of the approval window and the PR will be returned to the originator. Upon approval by each person in the routing, the PR is routed to the next person on the routing list for approval/rejection. When approving, every approver must identify in the "Comments" section of the approval window the capacity in which he/she is approving (i.e., Contract Specialist

ACQUISITION INSTRUCTION (AI) 014

SUBJECT: Purchase Request Routing and Processing for Contract Actions

approval, PA approval, etc.). All PRs will be processed in accordance with (IAW) the following sequence to the maximum extent possible; however additional reviewers may be incorporated in the routing as necessary based upon originating office policy or PD direction:

a. The IPT/PD assembles all required information/documentation and coordinates with the originator who prepares the PR and assigns the PR Number IAW Enclosure 3 and the established format of the respective PM office.

b. The originator, or other individual designated by the originating organization, enters the Description, Additional Description (as applicable), Defense Priorities and Allocation System (DPAS) Rating (if applicable), Type of Action, and Line Item information to include Contract Line Item Number (CLIN) / Sub-Line Item Number (SLIN) info, CLIN Descriptions, Estimated CLIN Cost, Unit of Issue, Period of Performance/Delivery Date, and Shipping Information. CLIN information should be coordinated with the Contract Specialist prior to PR creation. The originator shall also ensure the applicable contract number (including order number as applicable) is specified within the PR. The originator is responsible for uploading all applicable attachments. The originator ensures the PR includes accurate and complete information and then initiates the routing process.

c. The Associate Chief of Acquisition Logistics or Lead Acquisition Logistics POC reviews the PR to ensure it contains the correct logistical support documentation for the planned contract action and approves or rejects the PR.

d. The PD reviews the PR to verify all applicable documents (to include Contract Data Requirements Lists (CDRLs), Independent Government Cost Estimate (IGCE), technical documents, etc.) are attached to the PR or that applicable documents have been forwarded via email to the contract specialist, confers program office authorization of the contract action, and approves or rejects the PR.

e. The CE, performing the role of Standards Executive, reviews the package to verify technical documents such as the Statement of Work (SOW), Performance Specifications, and CDRLs identified for use in the contract action conform to applicable local and Service level policies and have undergone required coordination/approval.

f. The Contract Specialist reviews the PR to ensure it contains the information necessary to complete the contract action, verifies the Contract Number and CLIN information, and approves or rejects the PR.

g. The PA checks the PR for appropriation, time, purpose, and amount to prevent any misuse of funds; enters the appropriate Program Job Order Number (JON), Element of Resource (EOR), and DOD Activity Address Code (DODAAC) in the "Comments" section for the BA; reviews the PR to ensure it includes the correct data; and approves or rejects the PR for continued routing.

ACQUISITION INSTRUCTION (AI) 014

SUBJECT: Purchase Request Routing and Processing for Contract Actions

h. The BA enters the appropriate line(s) of accounting, JON, and funding amount in the "Line Item Detail Funding" section based on the information provided by the PA; checks that funds are appropriate for the allotment(s) provided and available balances are sufficient to cover the estimated cost of the procurement; and approves or rejects the PR. If EOR code 2511 thru 2516 is assigned, the BA coordinates with the Acquisition Center Division Chief supporting the organizational element to obtain guidance on complying with the requirements of AR 5-14. Additionally, under no circumstances should the EOR 25FB be used on a contract action.

i. The Certifying Official reviews the PR, certifies funds are available and appropriate for use in fulfillment of the requested procurement, and approves or rejects the PR.

j. The PCO receives and reviews the PR in PD2 to ensure it includes correct data, appropriate attachments, and proper approvals prior to workload assigning to a Contract Specialist for execution.

k. The Contract Specialist prepares the contract action for award and distributes electronic copies of the signed award document to the PD, PA, and BA, at a minimum. For contract modifications, the applicable PR numbers should be specified within the modification for PA/BA tracking purposes.

7. PROCESS.

a. The PR originator creates the PR and inputs/attaches the information associated with originator as identified in paragraph 6.b. The PR shall be numbered IAW Enclosure 3 and the established format of the respective PM office. The originator then selects the names of the functional representatives who will be included in the routing list as recommended in Enclosure 2; however, originators may modify the routing sequence and/or list depending on the nature of the PR. For example, incremental funding packages may not require routing through the Acquisition Logistician or CE. However, all PRs must be routed through the PA, BA, and Certifying Official, at a minimum. If the originator is not a member of the IPT for the specific action he/she should have the individual requesting the package identify the requisite individuals (e.g., PCO, Contract Specialist, PA, etc.) for routing purposes. The originator incorporates additional reviewers in the routing as necessary based upon originating office policy or PD direction. The originator then completes the PR and initiates the review and approval/rejection process.

b. Upon receipt of a PR by those identified in the routing, individuals execute their review responsibilities as identified in paragraphs 6.c. through 6.j. and either approve or reject the PR.

c. If additional funding is needed on the PR after Certifying Official review and approval, the PR should be returned to PRweb for re-routing through the PA with a note explaining the rationale for the needed change. The same procedure accomplished in paragraph 6.g. above will occur and the PR will then be re-routed to the BA and Certifying Official for compliance with the requirements of 6.h. and 6.i. After Certifying Official approval, the PR will be

ACQUISITION INSTRUCTION (AI) 014

SUBJECT: Purchase Request Routing and Processing for Contract Actions

resent to P122 for workload assignment by the PCO. In lieu of returning the PR to PRweb, a separate PR containing the additional funding may be utilized instead at the discretion of the originator.

d. When processing PRs for funding modifications requiring deobligation, realignment (deobligation and reobligation), and Line of Accounting (LOA) corrections, PRweb does not allow negative funding amounts to be associated with any LOA on a CLIN/SLIN within the PR. As such, PRs for these types of actions shall contain CLIN/SLINs with the affected LOA funded in the amount of \$0.00 for the deobligation, reobligation and/or LOA correction. The amount to be deobligated/reobligated/corrected must be specified by the PA/BA within the description or extended description field of the CLIN/SLIN. This is required to keep the PR from appearing to be a new commitment of funds (net increase in funding).

e. Upon award of the contract action, the Contract Specialist will provide a signed electronic copy of the award document to applicable personnel.

8. **GOAL.** The objective of this AI is to institute a consistent process for routing and approving PRs within PEO STRL.

9. **PROPOONENT.** Proponent for this instruction is the [REDACTED]. The proponent will review this instruction biennially.


JOSEPH A. GIUNTA, JR.
Principal Assistant Responsible for Contracting

ACQUISITION INSTRUCTION (AI) 014

SUBJECT: Purchase Request Routing and Processing for Contract Actions

RECOMMENDED PR ATTACHMENTS FOR VARIOUS TYPES OF CONTRACT ACTIONS

A. Modifications adding to the scope of the contract - Modifications that require a proposal from the contractor before inclusion in the contract:

- Funded PR (based on anticipated cost of changed requirements or incremental funding, as applicable)
- Copy of the Military Interdepartmental Purchase Request (MIPR) if customer funded
- Notes to Negotiator explaining what the mod is to accomplish within the contract
- Customer/PD Request for Action
- Revised Performance Work Statement (PWS)/SOW
- Revised Performance Specification, if required
- Sole Source Justification/Exception to Fair Opportunity (EFO), if required
- IGCE supporting the additional requirements of the PWS/SOW/Specification
- New/Revised CDRLs to support the added work, if required
- New/Revised Period Performance (POP) to support the added work, if required
- New/Revised Quality Assurance Surveillance Plan (QASP), if required
- List of Deliverables
- Revised Department of Defense Contract Security Classification Specification (DD254), if applicable
- Revised Acquisition Plan (AP), Army Services Strategy Panel Review (ASSP), Service Acquisition Strategy (SAS), as required

B. Modification changing the existing scope of the contract: Change Orders - Modifications that do not require a proposal from the contractor before inclusion in the contract:

- Funded PR based on anticipated cost of changed requirements, if any
- Copy of the MIPR if customer funded
- Notes to Negotiator explaining what changes to the basic scope are to be accomplished
- Revised PWS
- Revised CDRLs, if required
- Revised POP, if required
- Revised QASP, if required
- Revised DD254, if applicable
- Customer request for action, if a customer program

C. Modified Period of Performance/Delivery Date - No Cost:

- Unfunded PR
- Notes to Negotiator with the new POP info, affected CLIN/SLINs and the rationale for the change
- Justification for a no-cost extension
- Customer request for action (including copy of MIPR), if a customer program

ACQUISITION INSTRUCTION (AI) 014

SUBJECT: Purchase Request Routing and Processing for Contract Actions

**RECOMMENDED PR ATTACHMENTS FOR VARIOUS TYPES OF CONTRACT
ACTIONS (CONT'D)**

D. Incremental Funding Action:

- Funded PR for the amount of funding to be added
- Copy of the MIPR, if customer funded
- Notes to Negotiator advising what CLIN(s) to add funding to and how long it is expected to cover

E. Administrative Contract Action:

- Unfunded PR (including De-obligation/Re-obligation same amount actions (no net increase or decrease in obligated amount of the contract)). If a realignment of customer funds, include copy of MIPR.
 - Notes to Negotiator explaining what administrative action is to be taken and why (what amount is to be decreased from which CLIN and which CLIN is to be increased using those same decreased funds)
 - In the event changes are voluminous, provide an attachment listing all "from"/"to" changes required
 - Contracting Officer Representative (COR) Nomination Memorandum for designation of a new COR under the contract, if required

F. New Contract/D.O./T.O. Action:

- Funded PR (based on anticipated cost from IGCE or incremental funding, as applicable)
- Copy of the MIPR if customer funded
- PWS/SOO/Specification, etc.
- IGCE
- ASSP, SAS, AP, as required
- Sole Source Justification (Justification & Approval/EFO, as required)
- CDRs
- DD254, if required
- List of Government Furnished Property (GFP)/ Government Furnished Information (GFI), if required
- QASP, if required
- Market Research documentation
- List of Deliverables
- COR Nomination Memorandum, if required

ACQUISITION INSTRUCTION (AI) 014
SUBJECT: Purchase Request Routing and Processing for Contract Actions

PURCHASE REQUEST ROUTING ORDER AND FUNCTIONS SUMMARY

Approver must identify the capacity in which he/she is approving.

Functional Representative	PRweb Functions
Purchase Request Originator	Assigns the PR Number in accordance with established format, enters the Description, Additional Description (as applicable), DPAS Priority Rating (if applicable), Type of Action, and Line Item information to include CLIN Numbers, CLIN Descriptions, Estimated CLIN Cost, Unit of Issue, Period of Performance/Delivery Date and Shipping Information (CLIN information should be coordinated with the Contract Specialist). Specifies the contract number for which the PR is being created in the "Comments" section of the PR. Uploads all applicable attachments. Initiates routing process (to include the appropriate PD2 User/Contracting Officer for execution).
Acquisition Logistics	Ensures correct logistical support documents are attached to the PR. Reviews and approves/rejects the PR.
Project Director	Ensures all applicable documentation, CDRLS, IGCE, etc. are attached to the PR. Reviews and approves/rejects the PR.
Chief Engineer	Ensures technical documents adhere to applicable policies and have been coordinated/approved. Reviews and approves/rejects the PR.
Contract Specialist	Reviews PR for information required to award, verifies estimated contract award date, CLIN layout/accuracy. Reviews and approves/rejects the PR.
Program Analyst	Checks for purpose/time/appropriation to prevent misuse of funds. Enters JON for BA. Reviews and approves/rejects the PR.
Budget Analyst	Checks availability and appropriateness of funds; enters the Line of Accounting information and funded amounts; obtains coordination with Acquisition Center Division Chiefs regarding EORs 2511 through 2516. Follows Acquisition Center Division Chief's guidance regarding AR 5-14. Reviews and approves/rejects the PR.
Certifying Official	Reviews the PR; certifies funds availability/appropriateness and approves/rejects the PR.
PD2 Functions	
Contracting Officer (PCO)	Reviews PR for correctness and ensures proper approvals have been obtained; approves the PR by workload assigning to a Contract Specialist or rejects by returning the PR to PRweb.

ACQUISITION INSTRUCTION (AI) 014
SUBJECT: Purchase Request Routing and Processing for Contract Actions

PR NUMBERING FORMAT

The following format shall be used for all PRs:

<u>(DoDAAC)</u>	<u>(PM Identifier)*</u>	<u>(Fiscal Year)</u>	<u>(Sequential Number)</u>
W900KK	XXX	XX	X—X

CSG - Customer Support Group	FFS - PM Future Force
TDE - PM TRADE	BOO - Business Operations
ADL - Joint ADL Co-lab	ITS - PM ITTS
CON - PM ConSim	CAT - PM CATT
ACQ - Acquisition Center	OPS - PM Field OPS
CIO - Corporate Information Office	PSG - Project Support Group

NOTES:

1. A four-digit PM Identifier may be utilized as needed by specific PM offices
2. The complete PR number may not exceed 24 digits

Defense Contract Audit Agency Comments



IN REPLY REFER TO:
RD-2 225.2.B

NORTHEASTERN REGION
DEFENSE CONTRACT AUDIT AGENCY
DEPARTMENT OF DEFENSE
59 LOWES WAY, SUITE 300
LOWELL, MASSACHUSETTS 01851-5150

June 29, 2012

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

ATTENTION: [REDACTED]
Acquisition and Contract Management

SUBJECT: Response to Department of Defense Office of Inspector General (DoDIG)
Draft Report Titled, *Improved Oversight, but No Invoice Reviews and
Potential Antideficiency Act Violation May Have Occurred on the Kuwait
Observer Controller Team Task Orders*; Project No. D2011-D000AS-
0287.000

Thank you for the opportunity to respond to the subject draft report, *Improved Oversight, but No Invoice Reviews and Potential Antideficiency Act Violation May Have Occurred on the Kuwait Observer Controller Team Task Orders*. We appreciate the opportunity you have afforded us to provide preliminary/factual commentary on your draft report dated May 30, 2012. The following are DCAA's comments and responses to each of the recommendations impacting DCAA:

In your draft report dated May 30, 2012, you state, "Additionally, at the time of our review, Defense Contract Audit Agency (DCAA) had not yet audited the costs claimed on interim invoices because DCAA had not performed an incurred cost audit of the contractor since 2005. As a result, PEO STRI paid approximately \$70,000 in questioned direct travel costs and may be paying for other unreasonable and unallowable supplies and services on KOCT task orders." We concur that DCAA has not audited incurred costs since the 2005 incurred cost audit. However, there is no direct relationship between payment on interim vouchers and incurred cost audits. Interim vouchers are paid as services or supplies are rendered by the contractor; incurred cost audits are performed after completion of the contractor's fiscal year has ended and an incurred cost submission is completed by the contractor (usually six months after the fiscal year has ended). The completion of an incurred cost audit would not have prevented the payment of unallowable cost on interim invoices, as payment would have occurred well in advance of the incurred cost audit.

RD-2 225.2.B

June 29, 2012

SUBJECT: Response to Department of Defense Office of Inspector General (DoDIG) Draft Report Titled, Improved Oversight, but No Invoice Reviews and Potential Antideficiency Act Violation May Have Occurred on the Kuwait Observer Controller Team Task Orders; Project No. D2011-D000AS-0287.000

Specific DoDIG recommendations and DCAA comments follow:

DoD I/G Recommendations: A.2. "We recommend that the Resident Auditor, Raytheon Network Centric Systems Resident Office, Defense Contract Audit Agency:

a. Coordinate with the U.S. Army Program Executive Office for Simulation, Training, and Instrumentation contracting officer to develop and implement effective procedures to review cost vouchers submitted under contract W900KK-07-D-0001 and associated task orders to verify that the Army does not continue to reimburse the contractor for potentially unallowable direct costs.

b. Include direct travel costs as a high risk area when reviewing cost vouchers on contracts awarded to Raytheon Technical Services Company."

DCAA Response to DoDIG Recommendation A.2.a. and A.2.b.

A.2.a. Partially Concur. We concur to reviewing direct travel costs on contract W900KK-07-D-0001 and associated task orders to verify that the Army does not continue to reimburse the contractor for potentially unallowable costs. However, we do not feel a review of individual cost vouchers is the most effective way to accomplish this effort. Doing so would cause untimely review cycles and not allow for payment to the contractor in a timely manner. Rather, the Resident Auditor, Integrated Defense Systems Resident Office (responsible for the RTSC incurred cost audit), will establish an incurred cost support package for FY 2011 to test direct travel costs. The contractor will be submitting their final FY 2011 Incurred Cost claim as of June 30, 2012. We will use this submission to draw a sample of direct travel costs to test for compliance with FAR 31 and contract terms. Although the FY 2011 incurred cost audit will not be started until a future period, the field office will establish an assignment now to test for direct travel, and subsequently use that testing to support the FY 2011 incurred cost audit opinion. The audit office will coordinate with PEO-STRI prior to commencement of the audit as well as brief KOCT task orders to identify any contract terms related to direct travel. Issues identified in the direct cost testing will be brought to the attention of PEO-STRI, and DCAA will issue Form 1s for any billed unallowable direct costs.

RD-2 225.2.B

June 29, 2012

SUBJECT: Response to Department of Defense Office of Inspector General (DoDIG) Draft Report Titled, Improved Oversight, but No Invoice Reviews and Potential Antideficiency Act Violation May Have Occurred on the Kuwait Observer Controller Team Task Orders; Project No. D2011-D000AS-0287.000

A.2.b. Partially concur. See A.2.a response above. Additionally, the assessment of direct travel cost as high risk will be made once the auditor(s) have completed testing procedures to determine the allowability, allocability, and reasonableness of the costs. The IG finding on one voucher does not provide enough evidence to assess the costs as high risk. However, if audit testing proves that the contractor has billed significant unallowable direct travel costs, the auditor will assess the travel cost as high risk.

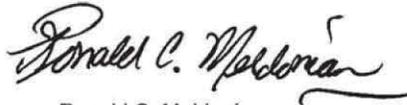
DoD I/G Recommendations: A.3. "We recommend that the Resident Auditor, Raytheon Integrated Defense Systems Resident Office, Defense Contract Audit Agency, consider direct travel costs as a high risk area when planning and performing audit assignments on Raytheon Technical Services Company."

DCAA Response to DoDIG Recommendation A.3.

A.3. Partially concur. See A.2.b response above. A determination of direct travel risk will be made after the auditor(s) have completed testing procedures to determine the allowability, allocability, and reasonableness of the costs. If audit testing proves that the contractor has billed significant unallowable direct travel costs, the auditor will assess the travel cost as high risk.

Questions regarding this memorandum should be directed to the undersigned at

[REDACTED]



Ronald C. Meldonian
Regional Director

Copy furnished:

HQs, P
HQs, DX
DRD-2
RAME-2
2801 [REDACTED]
2811 [REDACTED]
[REDACTED]
[REDACTED]



Inspector General Department of Defense

