

Inspector General

United States
Department of Defense



This report fulfills the requirements of the National Defense Authorization Act for Fiscal Year 2008

SEC. 845. DISCLOSURE OF GOVERNMENT CONTRACT AUDIT FINDINGS.

(a) Required Annex on Significant Audit Findings-

(1) IN GENERAL- Each Inspector General appointed under the Inspector General Act of 1978 shall submit, as part of the semiannual report submitted to Congress pursuant to section 5 of such Act, an annex on final, completed contract audit reports issued to the contracting activity containing significant audit findings issued during the period covered by the semiannual report concerned.

(2) ELEMENTS- Such annex shall include--

(A) a list of such contract audit reports;

(B) for each audit report, a brief description of the nature of the significant audit findings in the report; and

(C) for each audit report, the specific amounts of costs identified as unsupported, questioned, or disallowed.

**Section 845 Annex of Contract Audit Reports with Significant Findings
October 1, 2008- March 31, 2009**

Audit Report No. D-2009-030	Date: December 8, 2008
Subject: Report on Marine Corps Implementation of the Urgent Universal Needs Process for Mine Resistant Ambush Protected Vehicles	
Contractor: N/A	
MCCDC officials did not develop a course of action for the Urgent Universal Needs Statement, attempt to obtain funding for it, or present it to the Marine Corps Requirements Oversight Council for a decision on acquiring an MRAP-type vehicle capability.	

Audit Report No. D-2009- 032	Date: December 12, 2008
Subject: Report on the America Supports You Program	
Contractor: Susan Davis International	
The Deputy Assistant Secretary of Defense for Internal Communications and Public Liaison (Deputy Assistant Secretary) conducted the ASY program (created in 2004) in a questionable and unregulated manner. The Office of the ASD (PA) provided broad statements of work and inadequate oversight for \$8.8 million in charges made by Susan Davis International for its public relations efforts to promote or "brand" the ASY program and the services provided appear to be personal in nature.	

Audit Report No. D-2009-036	Date: January 16, 2009
Subject: Report on the Acquisition of the Air Force Second Generation Wireless Local Area Network	
Contractor: Multiple	
The 2nd Gen Program Management Office officials did not appropriately manage 2nd Gen as a major automated information system or adequately plan the program's acquisition. The PMO has yet to identify the final cost of 2nd Gen implementation. The 2nd Gen contracting officer did not implement internal controls over 2nd Gen. The 2nd Gen contracting officer potentially limited competition, accepted supplies and services valued at \$38.1 million that were not inspected for quality or quantity by a government representative, approved nearly \$798,300 in potential overcharges for contractor travel costs, and did not ensure the task order was fully funded at award. The 2nd Gen PMO incorrectly funded \$4.3 million of the task order with procurement funds rather than research, development, test, and evaluation funds and funded \$143.4 million in modifications with incorrect FY funds.	

Audit Report No. D-2009-041	Date: January 14, 2009
Subject: Report on Expeditionary Fire Support System and Internally Transportable Vehicle Programs	
Contractor: Multiple	
The Marine Corps Milestone Decision Authority approved the entrance of the EFSS and ITV programs into the Production and Deployment Phase (Milestone C) before the systems had demonstrated acceptable performance in developmental test and evaluation. As a result, the schedule for initial operational capability has slipped 22 months for the EFSS and 17 months for the ITV, while the average unit cost has risen by 86 percent for the EFSS and by 120 percent for the ITV. However, the Marine Corps has corrected most EFSS and ITV technical problems as reflected in 2008 operational test and evaluation effectiveness determinations.	
The Marine Corps Systems Command did not award the EFSS and ITV contract in accordance with the Federal Acquisition Regulation. Specifically, Command source selection personnel did not adequately document and disclose all technical evaluation criteria in the solicitation and did not prepare a price negotiation memorandum.	

**Section 845 Annex of Contract Audit Reports with Significant Findings
October 1, 2008- March 31, 2009**

Audit Report No. D-2009-043	Date: January 21, 2009
Subject: Report on FY 2007 DoD Purchases Made Through the U.S. Department of Veterans Affairs	
Contractor: Multiple	
The VA contracting officials and DoD management officials showed some improvement, but still did not consistently comply with procurement regulations when making assisted acquisitions through VA. Specifically, this review disclosed problems with acquisition planning, sole-source justifications, price reasonableness determinations, contract administration, and the bona fide needs rule. Further, Defense Supply Center Philadelphia contracting officers, when making direct acquisitions from Federal Supply Schedules, did not properly solicit, award, or perform oversight.	

Audit Report No. D-2009-046	Date: January 29, 2009
Subject: Report on Procurement and Delivery of Joint Service Armor Protected Vehicles	
Contractor: Multiple	
MRAP officials took appropriate action to accelerate delivery of MRAP vehicles and Army and Marine Corps developed requirements based on theater commander assessments. However, the Marine Corps did not properly determine that prices were fair and reasonable when they awarded nine IDIQ contracts for MRAP vehicle. Also, subsequent to the award of the nine contracts, MCSC contracting officials did not attempt to obtain cumulative quantity pricing discounts from one of the contractors. Contracting officials' acceptance of offered prices without attempting to obtain appropriate volume discounts may have resulted in potential lost savings of \$45.6 million.	

Audit Report No. D-2009-064	Date: March 24, 2009
Subject: Report on FY 2007 DoD Purchases Made Through the National Institutes of Health	
Contractor: Multiple	
DoD contracting officers continued to provide insufficient competition and inadequate documentation for direct acquisitions of goods. Also, DoD contracting officers and contracting officer's representatives provided inadequate contract surveillance. For assisted acquisitions, DoD program and NIH contracting officials: <ul style="list-style-type: none"> - favored the incumbent contractor; - did not verify price reasonableness; - awarded a task order for a requirement too large to be managed as a single task order, and; <ul style="list-style-type: none"> - did not accept a contractor's proposal to reduce the price of a task order. In addition, DoD, NIH, and General Services Administration officials misused funds, causing potential funding violations.	

**Section 845 Annex of Contract Audit Reports with Significant Findings
October 1, 2008 – March 31, 2009**

Audit Report No. 6501-2006B10100001	Date: November 3, 2008
Subject: Report on Audit of Incurred Costs, Calendar Year Ending December 31, 2006	
Prepared For: Defense Contract Management Agency, Defense Contract Management	
Report: \$23,672K Questioned Costs	
The audit of the certified final indirect cost rate proposal resulted in \$23.7 million of questioned costs. Costs were questioned in the areas of outside legal costs, miscellaneous expenses, consultants, business meetings, travel, executive compensation, and taxes and benefits expenses.	

Audit Report No. 3121-2005Q10503001	Date: December 18, 2008
Subject: Report on Operations Audit of Vendor/Supplier Management Processes	
Prepared For: Defense Contract Management Agency, Space and Missile Systems Division	
Report: \$27,730K Cost Savings	
The audit of the contractor's subcontract procurement management function for the fiscal year ended December 31, 2008 resulted in \$27.7 million of estimated savings to the Government. The recommended improvements included instituting basic management strategic planning controls specific to its vendor/supplier processes to reduce direct material and subcontract expenses. The final implementation requires the development of a process to continually track established targets and goals.	

Audit Report No. 2191-2008M17200001	Date: December 19, 2008
Subject: Report on Audit of Equitable Adjustment Proposal for Change Related to Outbound Transportation Effort	
Prepared For: Defense Supply Center Philadelphia	
Report: \$29,619K Questioned Costs	
The audit of the price adjustment proposal for costs related to the contract change for distribution of food and water to Forward Operating Bases resulted in \$29.6 million of questioned costs. Questioned costs included consultant fees that did not have a demonstrated direct cost benefit, overstated depreciation, lower actual telephone costs, unallowable finance costs and a credit for distribution fees already recovered by the contractor. Unsupported costs were the result of inadequate support documentation for personnel costs.	

Audit Report No. 3311-2007D17100001	Date: January 6, 2009
Subject: Report on Audit of Stop Work Order Proposal in Support of the Iraq 1,040 Man Camp at Adnon Palace Baghdad, Iraq	
Prepared For: Department of State	
Report: \$43,249K Questioned Cost	
The audit of the Stop Work Order on the firm-fixed-price, indefinite delivery, indefinite quantity contract for the construction of a 1,040 person self-contained residential camp in Bagdad resulted in the entire amount being questioned. The questioned costs are based on documentation showing that the stop work order costs were incurred well after the effective termination date making the costs unallowable.	

**Section 845 Annex of Contract Audit Reports with Significant Findings
October 1, 2008 – March 31, 2009**

Audit Report No. 4201-2007L17200006	Date: February 25, 2009
Subject: Claim for Equitable Adjustment – Global Claim, Delay and Disruption	
Prepared For: Naval Facilities Engineering Command, Hawaii	
Report: \$25,726K Questioned Costs	
The audit of the price adjustment claim under the firm-fixed-price contract for replacement of family housing quarters resulted in \$25.7 million of questioned costs. With the exception of some subcontractor costs, all claimed costs were questioned because the contractor had already been fully compensated for the costs through various contract modifications or the proposed amounts were not substantiated.	

Audit Report No. 3141-2008A19500001	Date: March 4, 2009
Subject: Report on Audit of Segment Closing Deficit	
Prepared For: Defense Contract Management Agency	
Report: \$54,787K Questioned Costs	
The audit of the segment closing deficit proposal resulted in the entire proposal being questioned. The proposal consisted of two separate elements – pension segment closing deficit and post retirement medical benefits. The pension deficit amount was questioned because the contractor did not fund the inactive employees as required by the Cost Accounting Standards regulations. The post retirement medical benefits (PRBs) amount was questioned because regulations do not provide for consideration of PRBs in conjunction with a pension plan segment closing.	

Audit Report No. 3231-2009M17200001	Date: March 13, 2009
Subject: Report on Audit of Request for Equitable Adjustment	
Prepared For: Department of Energy, Environmental Management Consolidated Business Center	
Report: \$26,559K Questioned Costs	
The audit of the proposed price adjustment (additions and deletions) to a cost-plus-award-fee contract task order awarded on June 20, 2007 resulted in \$26.6 million of questioned costs. Questioned costs included proposed management reserve which was not a cost within the scope of the contract, sales tax that was considered exempt, costs proposed without support documentation, and costs proposed that were not the result of the change in scope.	



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