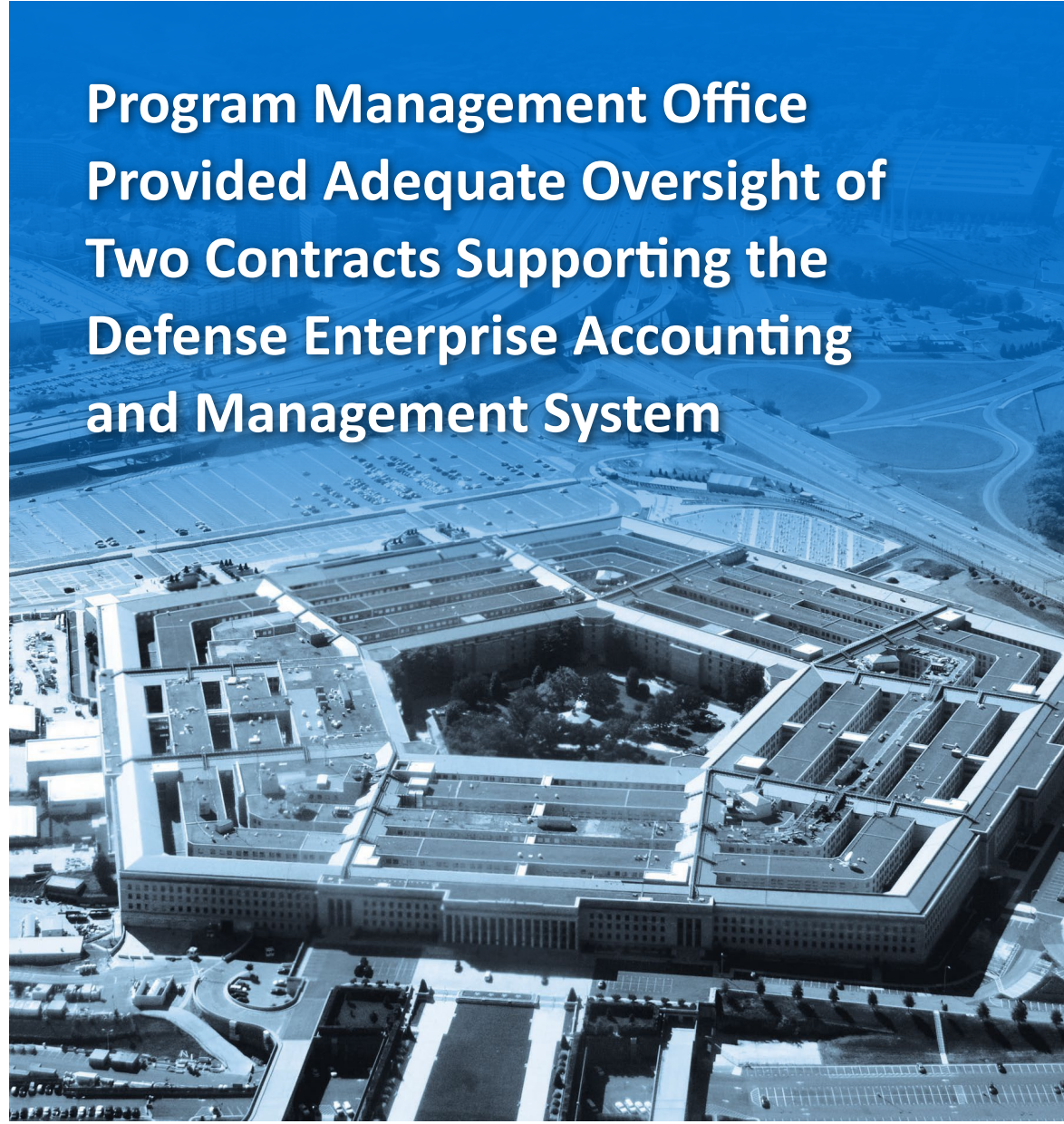




INSPECTOR GENERAL

U.S. Department of Defense

OCTOBER 25, 2013



Program Management Office Provided Adequate Oversight of Two Contracts Supporting the Defense Enterprise Accounting and Management System

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Report Documentation Page

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October 25, 2013

**MEMORANDUM FOR ASSISTANT SECRETARY OF THE AIR FORCE
(FINANCIAL MANAGEMENT AND COMPTROLLER)**

**SUBJECT: Program Management Office Provided Adequate Oversight of Two Contracts
Supporting the Defense Enterprise Accounting and Management System
(Report No. DODIG-2014-006)**

We are providing this report for your information and use.

Our original objective was to determine whether DoD and U.S. Air Force officials administered contracts supporting the Defense Enterprise Accounting and Management System (DEAMS) in an effective and efficient manner. Specifically, we planned to determine whether Government oversight of contractor performance was adequate, quality assurance plans were adequately implemented, contracts were funded in accordance with applicable regulations, and modifications that increased costs were properly supported. During audit planning, we revised our specific objective to determine whether Program Management Office (PMO) oversight officials¹ provided adequate oversight of contractor performance and implemented quality assurance plans for two contracts. Therefore, we reviewed contract documentation from 2004 through 2012 for the system integration (SI) contract FA8770-06-F-8001 and the independent verification and validation (IV&V) contract FA8770-09-C-0064. The contracts had an approximate total value of \$109 million.

Based on the changes to the specific objectives and the audit results, we will not address the overall objective related to DoD and Air Force officials' administration of contracts or the remaining specific objectives related to contract funding and contract modification in a follow-on report. Overall, PMO officials provided adequate oversight of contractor performance for the SI and IV&V contracts and implemented methods for documenting contractor performance on both contracts that met the intent of a quality assurance (surveillance) plan. We considered management comments on a discussion draft of this report in preparing the final and revised the report as appropriate.

¹ DEAMS PMO oversight officials include the contracting officer, contracting officer's representative, and quality assurance program coordinator; a multifunctional and integrated product team; and other personnel assigned to oversee DEAMS contracts.

System Is Key to Financial Statement Auditability

The May 2013 Financial Improvement and Audit Readiness Plan stated that Enterprise Resource Planning Systems² continue to be an essential part of the Department's audit readiness efforts. DEAMS is a key component to the overall Financial Improvement and Audit Readiness Plan and strategy to address DoD financial management challenges. DEAMS is a cross-service initiative between the Air Force, the U.S. Transportation Command, and the Defense Finance and Accounting Service. According to the DEAMS website, its mission is to support the warfighter with timely, accurate, and reliable financial information so DoD managers can make efficient and effective decisions.

In DoD Office of Inspector General Report No. DODIG-2013-111, "Status of Enterprise Resource Planning Systems' Cost, Schedule, and Management Actions Taken to Address Prior Recommendations," August 1, 2013, we reported the life-cycle cost for the DEAMS program was estimated at \$2.1 billion as of July 2012. However, this estimate was decreased to \$1.9 billion as of June 2013. According to Government Accountability Office Report No. GAO-13-311, "Selected Defense Programs Need to Implement Key Acquisition Practices," March 28, 2013, the program spent approximately \$334 million over 9 years before establishing its first Acquisition Program Baseline and developing a robust estimate for how much DEAMS was expected to ultimately cost. Based on information provided by DEAMS personnel,³ we identified a universe of 26 contracts valued at approximately \$266 million, in support of the DEAMS program, including SI, IV&V, assistance and advisory services, and licensing-type service contracts.

Program Management Office Implemented the Enterprise Resource Planning System

According to the DEAMS Program Charter, the PMO consists of project and functional branches. PMO officials are responsible for delivering a configured system that meets the DEAMS Functional Management Office (FMO) requirements. The FMO is responsible for interfacing with DEAMS stakeholders and defining the functional

² Enterprise Resource Planning systems were designed to replace numerous subsidiary systems, reduce the number of interfaces, and standardize and eliminate redundant data entry while providing an environment for end-to-end business processes.

³ Information provided by the Program Management Office and Functional Management Office.

requirements for DEAMS. The DEAMS Quality Assurance and Management function is an independent PMO function that reports directly to the program manager and deputy program manager.

In April 2005, DEAMS received Milestone A⁴ authority to develop and deploy a technology demonstration to Scott Air Force Base, Illinois, and its various tenant commands. On February 3, 2006, PMO personnel awarded the SI contract to Accenture Limited Liability Partnership, now Accenture Federal Services (Accenture), to reengineer DEAMS financial business processes and develop and implement the Increment I Technology Demonstration.⁵ The SI contract was a firm-fixed-price, performance-based incentive award that included contract line item numbers for reimbursable travel expenses and other direct costs incurred by the contractor. PMO awarded the SI contract to help integrate a new financial management system to ensure proper handling of common Federal accounting, reporting, and electronic business transactions. One of the deliverables for the SI contract was an end-to-end process for DEAMS so the Air Force could achieve the goal of a clean audit opinion. The SI contract expired on April 30, 2012. As of May 10, 2013, approximately \$106 million was obligated, and the total amount obligated was expended.

On September 30, 2009, PMO personnel awarded the IV&V contract to Ryan Consulting Group, Inc. (Ryan Consulting) to provide the PMO and oversight authorities with independent evaluation of DEAMS processes and product improvement services. The IV&V contract was a time and materials (labor hours) contract that included contract line item numbers for reimbursable travel expenses incurred by the contractor. Ryan Consulting was tasked with assisting PMO with monitoring the SI contract progress by verifying that the SI contract project phases complied with appropriate entry and exit criteria, evaluating system testing efforts, and providing accounting and finance functional expertise to ensure the system satisfied all applicable requirements. The IV&V contract expired on December 22, 2011. As of January 31, 2012, approximately \$2.7 million was obligated, and the total amount obligated was expended.

⁴ Milestone A is the point at which a recommendation is made and approval sought regarding starting or continuing an acquisition program into the Technology Development Phase.

⁵ Technology development is a phase within the Defense Acquisition System that follows a Milestone A decision. This phase includes refining requirements and processes until the system achieves the required maturity level, and it may require multiple development increments.

Officials Provided Adequate Oversight of Contracts

PMO officials provided adequate oversight of contractor performance for the SI and IV&V contracts. PMO contracting officers designated contracting officer's representatives (CORs) by issuing designation letters and specifying their authority and period of designation for the SI and IV&V contracts in accordance with Federal Acquisition Regulation (FAR) Subpart 1.6, "Career Development, Contracting Authority, and Responsibilities." PMO contracting officers were unable to provide evidence that all CORs were trained in accordance with the Air Force policy effective at the time that the SI and IV&V contracts were awarded.⁶ However, PMO contracting officers ensured that CORs were properly trained in accordance with Air Force Federal Acquisition Regulation Supplement Mandatory Procedure 5301.602-2(d).⁷ The CORs for the SI and IV&V contracts used PMO officials to assist them in monitoring the performance of Accenture and Ryan Consulting. For example, integrated product teams (IPTs) assisted in monitoring the SI and IV&V contracts and helped refine requirements as needed. The IPTs consisted of functional area experts who monitored contractor performance, reviewed deliverables for compliance, and provided technical advice.

PMO officials met regularly with Accenture and Ryan Consulting to discuss the program status and challenges and to refine requirements. PMO officials periodically assessed contractor performance during performance reviews and provided feedback to Accenture and Ryan Consulting in the form of incentive payments⁸ and annual assessments, respectively. In addition, the PMO program manager held regular meetings with senior Air Force officials to keep DEAMS stakeholders informed of the program status and identify program risks and other program metrics.

Contractor Performance Documentation Maintained

PMO officials implemented methods for documenting contractor performance for both the SI and IV&V contracts that met the intent of a quality assurance surveillance plan (QASP). A PMO contracting officer approved a performance plan for the SI contract on February 28, 2011. Although PMO contracting officers did not prepare a QASP for

⁶ Air Force Federal Acquisition Regulation Supplement Mandatory Procedure (MP) 5346.103, August 2005, required that CORs receive Phase I and Phase II training prior to contract award and required the contracting officer and quality assurance program coordinator to maintain documentation of Phase I and Phase II training.

⁷ The Phase I and Phase II training requirements outlined in MP5346.103 were replaced by MP5301.602-2(d), April 21, 2011, which requires 16 hours of COR specific refresher training, annual ethics training, and any Activity required training.

⁸ PMO officials outlined the criteria for incentive payments for the SI contract in an award fee plan and performance-based incentive plan. Also, PMO officials determined award fee incentives based on the assessed value of Accenture's support to the DEAMS program and performance-based incentives on Accenture's performance of SI contract functions.

the SI contract in conjunction with the preparation of the statement of work, the performance plan identified the contract elements that required surveillance and the methods used to provide surveillance as required by FAR Subpart 46.4, "Government Contract Quality Assurance." Specifically, the performance plan provided information to contractors on the requirements, level of performance expectations, and how the PMO would confirm the services were provided. The performance plan identified a multifunctional team responsible for monitoring and evaluating Accenture's performance on an ongoing basis and required that the COR perform quarterly assessments of Accenture's performance. The performance plan also outlined the performance objectives and performance standards by which Accenture would be evaluated. Based on the content of the performance plan, we determined that the performance plan met the intent of a QASP.

The performance plan for the SI contract established the use of assessment logs to document the timeliness and quality of deliverables and to control contract cost. PMO officials engaged in other ad hoc procedures for monitoring contractors and documenting the results instead of maintaining assessment logs or performing quarterly assessments. PMO officials stated that they did not use the assessment logs or perform the quarterly assessments because their constant interaction with Accenture through meetings and briefings provided adequate information to assess contractor performance.

We determined that collectively, the actual ad hoc procedures and methods used by PMO to document contractor performance met the intent of the performance plan. The ad hoc procedures and documentation methods included the following:

- **Milestone Billing** – Air Force-developed tracker that established target monthly tasks, milestone dates, and billing amounts incorporated into the contract. The acceptance/rejection of tasks was unofficially tracked directly on the milestone billing sheets by a PMO official.
- **Program Management Review** – Air Force-developed briefing that provided an overview of the program, contract status, schedule, financial review, and IPT status.

- **Integrated Master Schedule** – Contractor-developed monthly deliverables that defined tasks, work products, milestones, and resource requirements for program execution. PMO officials maintained copies of feedback that they provided to Accenture identifying critical, substantial, and administrative issues.
- **Incentive Payment Assessment Documentation** – The incentive payment assessment documentation tracked contract deliverables, performance requirements, due dates, acceptance or rejection, and level of performance. PMO officials adhered to established assessment periods when determining the amounts earned by Accenture for incentive payments.
- **Monthly Status Report** – Air Force-developed report that provided an update on the acquisition and execution activities, number of deficiency reports worked, Integrated Master Schedule changes since the last reporting period, and contract status.
- **DEAMS Program Metrics** – Air Force-developed briefing that provided an update on user metrics, development delivery schedule, operational assessment readiness, system performance, funding, deployment plan, and deficiency reports.
- **Contracting Officer Pre-Approval Process** – The contracting officer established procedures requiring prior approval before incurring travel and other direct costs.

PMO officials provided evidence that they used and unofficially maintained the ad hoc procedures and documentation methods listed above.

The following table summarizes the performance objectives outlined in the performance plan and compares the performance plan documentation requirements with the actual ad hoc procedures and documentation methods used to document surveillance.

Table. Comparison of Performance Plan Requirements and Actual Ad Hoc Procedures and Documentation Methods Used for the SI Contract

Performance Objectives (Work Requiring Surveillance)	Plan Requirements for Documenting Surveillance	Actual Method of Documenting Surveillance
Timeliness: Deliverables delivered by the date specified in the Contract Data Requirements List (CDRL).	SS-1: CDRL Delivery Log	<ul style="list-style-type: none"> • Milestone Billing • Program Management Review
Quality of Service: Deliverables meet the requirements of the content stated in the CDRL.	SS-2: Deliverable Acceptance Log	<ul style="list-style-type: none"> • Milestone Billing • Incentive Payment Assessment Documentation
Timeliness: Deficiency Reports fielded within required timelines.	SS-3: Deficiency Report Timeline Tracking Log	Integrated Master Schedule
Quality of Service: Deficiency Reports are implemented in production error-free.	SS-4: Requirements Traceability Matrix Implementation Tracking Chart	<ul style="list-style-type: none"> • Monthly Status Report • DEAMS Program Metric
Timeliness: Complete the release by the PMO approved Requirements Operability Testing Readiness Review schedule.	SS-5: Release Tracking Table	Milestone Billing
Cost Control: Meet the approved Contracting Officers Cost.	SS-6 & SS-7: Total Contract Cost Tracking, Total Contract Cost Time, & Material Tracking Logs	Contracting Officer Pre-Approval Process
Timeliness: Level II Help Desk Response	SS-8: Level II Help Desk Tracking Log	Milestone Billing

The actual methods of documenting surveillance did capture contractor performance results that addressed the performance objectives outlined in the performance plan. For example, one of the performance objectives included in the performance plan was to assess timeliness and determine if deliverables were delivered by the date specified within the Contract Data Requirements List (CDRL). The performance plan established performance as acceptable when 98 percent of critical deliverables were received on time. The performance plan also required that these surveillance results be captured on a CDRL Delivery Log. Although PMO officials did not use the CDRL Delivery Log to capture the surveillance results, the milestone billing tracking spreadsheets did capture the timeliness performance objective, acceptance criteria, corresponding CDRL, and PMO notes documenting surveillance results.

For the IV&V contract, a contracting officer approved the performance plan on September 22, 2009. The performance plan identified the contract elements that required surveillance and the methods used to provide surveillance as required by FAR Subpart 46.4, "Government Contract Quality Assurance." Specifically, the performance plan outlined the performance objectives, performance thresholds,

and surveillance methods. In addition, the performance plan established the IV&V IPT's responsibilities for monitoring and assessing Ryan Consulting's performance, which included preparing and maintaining key performance data such as performance logs, performance reports and contract deliverables, and distributing this information quarterly to the IV&V IPT members. Based on the content of the performance plan, we determined that the performance plan met the intent of a QASP.

The actual methods of documenting surveillance did capture contractor performance results that addressed the performance objectives. One of the performance objectives included in the performance plan was for Ryan Consulting to provide timely and high-quality project status reports. PMO officials stated that they met weekly with Ryan Consulting, provided verbal feedback on contractor deliverables, and relied on weekly review meeting minutes that Ryan Consulting prepared to summarize discussions and details of performance and accomplishments. PMO officials also maintained the weekly review meeting minutes, providing evidence that PMO officials and Ryan Consulting discussed current and future tasks, formal and informal deliverables, and milestones. PMO officials also used the weekly review meeting minutes as support for the Contractor Performance Assessment Report (CPAR). PMO officials stated that they did not identify performance issues with Ryan Consulting, which is also noted in the CPAR. PMO officials assessed the quality of services provided, the schedule, and other performance categories and documented their assessment in the CPAR. PMO officials rated Ryan Consulting's performance as "Exceptional" from September 30, 2009, through January 31, 2011, and from February 1, 2011, through January 31, 2012. Although PMO officials did not prepare and maintain performance logs and reports to capture the surveillance results, the weekly review meeting minutes did capture the timeliness of deliverables and the corresponding CDRL. The CPARs also provided evidence of surveillance results and feedback delivered to Ryan Consulting.

Review of Internal Controls

DoD Instruction 5010.40, "Managers' Internal Control Program Procedures," May 30, 2013, 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 found that internal controls over the SI and IV&V contracts were generally effective as they related to the audit objective.

Scope and Methodology

We conducted this performance audit from February 2012 through October 2013 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 conclusions based on our audit objectives.

Our announced objective was to determine whether DoD and Air Force officials administered contracts supporting the DEAMS in an effective and efficient manner. Specifically, we planned to determine whether Government oversight of contractor performance was adequate, quality assurance plans were adequately implemented, contracts were funded in accordance with applicable regulations, and modifications that increased costs were properly supported. During the planning phase, the FMO provided a list of contracts to the audit team in April 2012. The PMO office also provided a list of contracts to the audit team in May 2012. Both lists included contracts awarded on behalf of the FMO and PMO offices. We compared the two lists and identified duplicate contract numbers on both lists. We reconciled the two lists by removing the duplicate contracts, which resulted in a universe of 26 contracts, valued at approximately \$266 million. Subsequently, we revised our specific objectives to focus primarily on determining whether PMO provided adequate oversight of contractor performance and implemented quality assurance plans. As a result, we did not address the overall objective related to DoD and Air Force officials' administration of contracts or the remaining specific objectives related to contract funding and contract modification.

We reviewed two FMO contracts and two PMO contracts. General Services Administration (GSA) personnel administered the two FMO contracts reviewed. We visited the GSA Office of Assisted Acquisition Services within the Federal Acquisition Service and interviewed personnel to gain an understanding of their roles in the administration of the two FMO contracts. We determined that GSA was not involved with onsite contractor performance monitoring for the two FMO contracts, but relied on contractor performance monitoring information provided by FMO. Based on the results of the work performed during the planning phase, we removed the FMO contracts from the scope of the audit. At the time of our site visits, the Electronic Services Group/Contracting Branch (ELSG/PK) (formerly known as

Developing and Fielding Systems Group/Contract Division) was the contracting office providing contract administration for the two PMO contracts. According to Defense Contract Management Agency (DCMA) personnel, DCMA shared contract administration responsibilities with ELSG/PK for the SI contract. We interviewed DCMA personnel to gain an understanding of their roles and responsibilities for contract administration. DCMA personnel stated they provided contract administration, but relied on contractor performance information provided by the primary contracting officer at PMO. Based on the revised scope and objectives of the audit, we did not perform additional work related to DCMA administrative roles.

We visited the PMO at Wright-Patterson Air Force Base to determine if the SI and IV&V contracts were administered in an effective and efficient manner. During site visits, we interviewed the SI primary contracting officer, SI and IV&V CORs, and other PMO officials to gain an understanding of the COR delegation and training requirements, contract oversight of SI and IV&V contractors, and their methodology of assessing and documenting contractor performance.

We reviewed contract documentation from 2004 through 2012, including the SI contract FA8770-06-F-8001 and the IV&V contract FA8770-09-C-0064. These contracts had an approximate total value of \$109 million. We also reviewed COR designation letters, nomination letters, training certificates, and other documentation to support contractor oversight for the SI and IV&V contracts. We determined whether contract oversight was effective, whether QASPs were prepared, and whether contractor performance documentation was prepared and maintained.

We reviewed Federal, DoD, and Air Force contracting guidance. Specifically, we reviewed FAR subpart 1.6, FAR subpart 46.4, and Defense Federal Acquisition Regulation Supplement Subpart 246.4, "Government Contract Quality Assurance." We also reviewed the Office of the Under Secretary of Defense for Acquisition, Technology, and Logistics Memorandum, "DoD Standard for Certification of COR for Service Acquisitions," March 29, 2010, and Air Force Federal Acquisition Regulation Supplement Mandatory Procedures.

Use of Computer-Processed Data

We did not rely on computer-processed data in developing our findings and conclusions.

Prior Coverage

No prior audit coverage has been conducted on PMO oversight of DEAMS contracts during the last 5 years.

You can obtain information about the Department of Defense Office of Inspector General from DoD Directive 5106.01, "Inspector General of the Department of Defense (IG DoD)," April 20, 2012; DoD Instruction 7600.02, "Audit Policies," April 27, 2007; and DoD Instruction 7050.03, "Office of the Inspector General of the Department of Defense Access to Records and Information," March 22, 2013. Our website is www.dodig.mil.

We appreciate the courtesies extended to the staff. If you have any questions, please contact me at (703) 601-5945 (DSN 329-5945).



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