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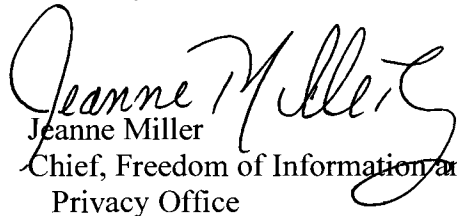
Ref: FOIA-2015-00294

This is in response to your December 20, 2014, Freedom of Information Act (FOIA) request for DoDIG report D-2003-112, Contracting Practices of the Defense Security Service for Personnel Security Investigations. We received your request on January 16, 2015, and assigned it case number FOIA-2015-00294.

The Office of the Deputy Inspector General for Auditing conducted a search and located the enclosed report. I determined that the redacted portions are exempt from release pursuant to 5 U.S.C. § 552(b)(6), which pertains to information, the release of which would constitute a clearly unwarranted invasion of personal privacy.

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Sincerely,

  
Jeanne Miller  
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Enclosure(s):  
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June 27, 2003



# Homeland Security

## Contracting Practices of the Defense Security Service for Personnel Security Investigations (D-2003-112)

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### **Acronyms**

ASD (C3I)	Assistant Secretary of Defense (Command, Control, Communications and Intelligence)
CCMS	Case Control Management System
COR	Contractor Officer Representative
CTS	Case Tracking System
DSS	Defense Security Service
FAR	Federal Acquisition Regulations
GAO	General Accounting Office
OIG DoD	Office of the Inspector General of the Department of Defense
OPM	Office of Personnel Management
PSI	Personnel Security Investigation
SSBI	Single Scope Background Investigation
TSPR	Top Secret Periodic Reviews



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June 27, 2003

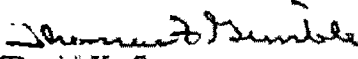
MEMORANDUM FOR UNDER SECRETARY OF DEFENSE FOR INTELLIGENCE  
ASSISTANT SECRETARY OF THE AIR FORCE  
(FINANCIAL MANAGEMENT AND COMPTROLLER)  
NAVAL INSPECTOR GENERAL  
AUDITOR GENERAL, DEPARTMENT OF THE ARMY  
ACTING DIRECTOR, DEFENSE SECURITY SERVICE

SUBJECT: Report on Contracting Practices of the Defense Security Service  
for Personnel Security Investigations (Report No. D-2003-112)

We are providing this report for review and comment. We performed the audit in response to a request from the former Director, Defense Security Service. We considered comments on a draft of this report when preparing the final report. DoD Directive 7650.3 requires that all recommendations be resolved promptly. We did not receive comments from the Assistant Secretary of Defense (Command, Control, Communications, and Intelligence), but we did receive informal comments from the Deputy Secretary of Defense (Security and Information Operations). Therefore, we request that the Under Secretary of Defense for Intelligence provide comments on Recommendation A.1. The Defense Security Service comments were generally responsive. However, we request additional comments to address the revision to Recommendation A.2.b. and to provide details for planned actions on Recommendation C.1. The Air Force comments were not responsive. We request that the Commander, 11th Contracting Squadron provide additional comments on revised Recommendation B.2.a. and on Recommendation B.2.b.. Please provide comments in response to this report by July 30, 2003.

If possible, please send management comments in electronic format (Adobe Acrobat file only) to [AudAM@dodig.osd.mil](mailto:AudAM@dodig.osd.mil). Copies of the management comments must contain the actual signature of the authorizing official. We cannot accept the /Signed/ symbol in place of the actual signature.

We appreciate the courtesies extended to the staff. Questions should be directed to (b) (6) at (703) 604 (b) (6) (b) (6) (b) (6) (DSN 664 (b) (6) or (b) (6) at (703) 604 (b) (6) (DSN 664 (b) (6) (b) (6) (b) (6) See Appendix C for the report distribution. The team members are listed in the inside back cover.

  
David K. Steensma  
Deputy Assistant Inspector General  
for Auditing

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## Office of the Inspector General of the Department of Defense

Report No. D-2003-112

(Project No. D2002AD-0041.001)

June 27, 2003

### Contracting Practices of the Defense Security Service for Personnel Security Investigations

#### Executive Summary

**Who Should Read This Report and Why?** Civil service and uniformed officers with authority over the Defense Security Service and Central Adjudication Facilities and people who employ the Defense Security Service should read this report. The report discusses the reliability and quality of services provided on personnel security investigation contracts.

**Background.** This report is the second of two reports that discuss an allegation concerning the management and business practices of the Defense Security Service. These reports are in response to an October 2001 anonymous letter to the Assistant Secretary of Defense (Command, Control, Communications and Intelligence),\* the Office of the Inspector General of the Department of Defense, and other Government officials alleging mismanagement and misconduct at the Defense Security Service. The Director, Defense Security Service, who received a copy of the allegation, requested that the Office of the Inspector General of the Department of Defense evaluate the allegation.

This report specifically addresses the acquisition and contracting practices of the Defense Security Service for personnel security investigations. The Defense Security Service provides investigative services to conduct personnel security investigations and investigations of unauthorized disclosure of classified information for DoD Components, their contractors, and as directed by the Assistant Secretary of Defense (Command, Control, Communications, and Intelligence) for other U.S. Government departments and agencies. The Defense Security Service established a program to contract with private sector entities to augment its investigative capabilities. Since September 1999, the Defense Security Service awarded six contracts for investigative services to alleviate a backlog of personnel security investigation cases. The Defense Security Service used the contracting officers at the 11th Contracting Squadron at Bolling Air Force Base to support contracting efforts from September 1999 to July 2002.

**Results.** The Defense Security Service maintained a control environment that was not conducive to effectively managed contracts that complied with laws and regulations (finding A). This report discusses four specific outcomes from the control environment. The Defense Security Service contracting staff did not comply with regulations when modifying contracts and the contracting officers did not adequately monitor contracting activity. Those actions led to incomplete and untimely services and to risk of financial liability (finding B). The Defense Security Service also did not implement an effective

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\* As of May 8, 2003, the functions of this office were separated into the Office of the Under Secretary of Defense for Intelligence and the Office of the Assistant Secretary of Defense for Networks and Information Integration

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quality assurance program. That program's limitations resulted in uncertainty about the investigations completed by contractors (finding C). Additionally, the Defense Security Service did not reconcile orders, receipts, invoices, and payments. The insufficient reconciliation led to overpayments, erroneous payments, and fund shortages on specific orders (finding D). Further, the Defense Security Service did not adequately account for and control credentials that identified investigators. The control practices resulted in unknown disposition for 11 percent of credentials provided to contractors and exposure to inappropriate use of credentials (finding E). We recommend that the Defense Security Service improve its overall control environment for contracting; train and enable staff to follow regulatory and contractual requirements; and implement procedures for quality assurance, invoice reconciliation, and credential accountability and control. We recommend that the Commander, 11th Contracting Squadron provide training and establish oversight of contracting officers.

On January 24, 2003, the Deputy Secretary of Defense approved Management Initiative Decision 908, "Re-engineering the Personnel Security Program." When DoD implements the initiative, DoD will acquire personnel security investigation services from the Office of Personnel Management and divest itself of those activities. In early February, DoD formed two teams to implement the decision. We therefore recommend that the Under Secretary of Defense for Intelligence direct the implementation teams to establish management controls and well-defined processes for acquiring personnel security investigation services under the re-engineered program.

**Management Comments and Audit Response.** We did not receive formal comments from the Office of the Assistant Secretary of Defense (Command, Control, Communications, and Intelligence). We request that the Under Secretary of Defense for Intelligence provide formal comments to this report. Comments received from the Acting Director, Defense Security Service were generally responsive. The Defense Security Service has taken or plans to take actions to improve its control environment; to train and enable staff to follow regulatory and contractual requirements; and to implement procedures for quality assurance, invoice reconciliation, and credential accountability and control. However, we request that the Defense Security Service include the reported weaknesses and corrective actions in personnel security investigation contracting services in its 2003 annual statement of assurance. The Air Force comments were not responsive; however, based on those comments, we added a recommendation on the contracting officer's effective oversight and support. See the Findings section of the report for a discussion of management comments and the Management Comments section of the report for the complete text of the comments. We request that the Under Secretary of Defense for Intelligence; the Acting Director, Defense Security Service; and the Commander, 11th Contracting Squadron provide comments on the report by July 30, 2003.

# **Table of Contents**

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<b>Executive Summary</b>	i
<b>Background</b>	1
<b>Objectives</b>	2
<b>Findings</b>	
A. Personnel Security Investigation Contracting Control Environment	3
B. Directing and Administering Contract Terms and Conditions	11
C. Quality Assurance Program	17
D. Invoicing Procedures	23
E. Contractor Accountability for Credentials	28
<b>Appendixes</b>	
A. Scope and Methodology	33
B. Prior Coverage	35
C. Report Distribution	36
<b>Management Comments</b>	
Department of the Air Force	39
Defense Security Service	41

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## Background

**Letter of Allegations.** This report is the second of two reports that discuss allegations concerning the management and business practices of the Defense Security Service (DSS). This report specifically addresses the acquisition and contracting practices of the DSS. In October 2001, the Assistant Secretary of Defense (Command, Control, Communications, and Intelligence) [ASD (C3I)], the Office of the Inspector General of the Department of Defense (OIG DoD), and other Government officials received an anonymous letter alleging mismanagement and misconduct, including contracting practices, at the DSS. The letter included an allegation that DSS duplicated investigative work that ASD (C3I) diverted to the Office of Personnel Management. In addition, the letter alleged that DSS continued to award contracts even though none of the contractors met their investigative requirements. The Director, DSS, who received a copy of the allegations, requested that the OIG DoD evaluate them.

**The DSS Mission.** DSS provides security services to the DoD under the direction, authority, and control of the ASD (C3I). Effective May 8, 2003, ASD (C3I) intelligence and security resources and authorities were transferred to the Office of the Under Secretary of Defense for Intelligence. The DSS mission is to provide a single, centrally located investigative service to conduct personnel security investigations (PSIs) and investigations of unauthorized disclosure of classified information within the 50 States, the District of Columbia, and the Commonwealth of Puerto Rico for DoD Components and their contractors, and as directed by ASD (C3I), for other U.S. Government departments and agencies. In addition, DSS provides education, training and security awareness to DoD and other U.S. Government organizations and industry.

**The PSI Contracting Program.** The DSS established a program for contracting with private sector entities to augment DSS investigative capabilities. Since September 1999, DSS awarded six contracts to alleviate the backlog of PSIs estimated to be between 500,000 and 900,000 cases. According to the PSI contract terms, the contractors should comply with DSS regulations and guidelines and national investigative standards. During FY 2002, DSS developed two solicitations to continue contracting to alleviate the backlog of PSIs.

**Contracting Officer Support.** From September 1999 to July 2002, DSS used the 11th Contracting Squadron at Bolling Air Force Base to award and administer five of six contracts to reduce the PSI backlog. The General Services Administration awarded and administered the sixth contract, which is not discussed in this report. DSS planned to use the Defense Contracting Command Washington, then a Naval Air Warfare Center contracting office, to award post-July 2002 PSI contracts.

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## Objectives

The primary audit objective was to review DSS contracting practices for the PSI program. Specifically, we evaluated the overall control environment, modifications to the contract, the quality assurance program, security of Privacy Act information, procedures for invoice payments and contractor billings, and accountability for investigator credentials issued to contractors. We also reviewed the adequacy of the management control program as it related to the audit objective. See Appendix A for a discussion of the scope and methodology and our review of the management control program. See Appendix B for prior coverage related to the objectives.

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## **A. Personnel Security Investigation Contracting Control Environment**

The DSS management did not foster a positive environment for PSI contracting program because it regarded reducing the investigation backlog as its overriding priority. In addition, DSS PSI contracting program managers and contracting officer representatives (CORs) had no contract experience, limited contract training, and little incentive to follow the Federal Acquisition Regulation (FAR) and other contract discipline. Specifically, DSS did not:

- have an effective management control program in place;
- disclose contracting for PSIs as a material weakness in its annual statement of assurance;
- assess the skills and abilities required for overseeing the PSI contracts; or
- promote compliance with FAR and DSS standards or implement procedures over contract quality, completeness and accountability.

As a result, DSS cannot account for the quality of contractor-performed investigations, payments made to contractors, or credentials provided to contractors. Additionally, DSS cannot effectively measure performance of the PSI contracting program and determine whether the program achieved its goals.

## **Requirements for the Management Control Program**

DSS did not effectively evaluate the PSI contracting program as required by Office of Management and Budget (OMB) circulars, General Accounting Office (GAO) standards, or DoD regulations.

**OMB Circular A-123.** OMB Circular A-123, "Management Accountability and Control," June 1995, provides guidance to Federal managers on improving the accountability and effectiveness of Federal programs and operations by establishing, assessing, correcting, and reporting on management controls. Management controls are defined as the organization, policies, and procedures used by agencies to make sure that programs achieve their intended results; resources are used consistently with an agency's mission; program resources are protected from waste; laws and regulations are followed; and reliable information is obtained, maintained, reported, and used for decision making.

**GAO Management Control Standards.** GAO established the minimum level of quality acceptable for management control in Government, which it refers to as internal control in its publication, "Standards for Internal Control in the Federal

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Government," November 1999. That publication sets the minimum standards in five areas: control environment, risk assessment, control activities, information and communication, and monitoring. In August 2001, GAO issued the publication, "Internal Control Management and Evaluation Tool." The evaluation tool is not mandatory. It provides a systematic, organized, and structured approach to assessing internal controls using sets of questions and criteria for achieving effectiveness and efficiency of operations, reliability of financial reporting, and compliance with laws and regulations. The tool is also useful for evaluating the objective of safeguarding assets from fraud, waste, and abuse.

**DoD Management Control Program.** DoD Directive 5010.38, "Management Control (MC) Program," August 26, 1996, requires DoD organizations to implement a comprehensive system of management controls that provides reasonable assurance that programs are operating as intended. In addition to providing a system of controls, managers are to periodically evaluate and report on the adequacy of the controls, according to the Directive.

**DoD Management Control Procedures.** DoD Instruction 5010.40, "Management Control Program Procedures," August 28, 1996, implements policy, assigns responsibilities, and prescribes procedures to achieve the program that DoD established in Directive 5010.38.

## **DSS Management Control Program**

DSS did not have an adequate management control program in place to ensure that its program of contracting for PSIs achieved effective results, followed laws and regulations, and produced and reported reliable information for decision-making purposes. In FY 2000, DSS management designated the PSI program overall as a high-risk management control area because of quality and backlog issues. In the FY 2001 statement of assurance, the Director of DSS identified the PSI contracting program as part of the corrective action to reduce the backlog and provide timely investigations.

The FY 2002 statement of assurance reported no material management control weaknesses. However, as of January 2003, DSS management and the PSI contracting program staff had not completed an evaluation of the management controls over the PSI contracting program. Although the Office of the DSS Inspector General evaluated and internally reported results for several areas of operations, including the PSI contracting program, DSS management did not include the results as material weaknesses in its FY 2002 statement of assurance.

## **Disclosures in the FY 2002 Statement of Assurance**

The Annual Statement of Assurance, November 1, 2002, states that the Acting Director, DSS, "...can provide reasonable assurance that adequate management

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controls are in place and operating effectively.” In our opinion, DSS management should have disclosed the PSI contracting program as a material control weakness in that statement of assurance because the contracting program represented significant resources, received high interest from Government and public observers, and had systemic weaknesses that reduced the reliability of DoD personnel security investigations.

The PSI contracting program represented significant resources. The funding for the PSI contracting program was \$24.7 million of \$494.2 million (approximately 5 percent) budgeted for DSS in FY 2002. The funding for the PSI contracting program grew in FY 2003 to \$34.7 million of the \$450.1 million (approximately 7.7 percent) budgeted for DSS in FY 2003. We consider the funding of the PSI contracting program to be significant to the total DSS program.

The PSI program overall received high interest from Government and public observers. Congress conducted hearings on the investigative process and mandated that DSS reduce the backlog. GAO examined and reported on the PSI program in GAO Report No. NSIAD-00-12, “Inadequate Personnel Security Investigations Pose National Security Risks,” October 1999. In addition, the press periodically reported on PSIs and the DSS.

The PSIs performed by contractors, as part of the overall PSI program, provide the information upon which security clearances are granted, denied, suspended, or revoked, as well as the basis for determining eligibility to occupy sensitive positions. Contractor-performed PSIs therefore affect our national security. Based on the resources allocated, external interest, and observed weaknesses, the PSI contracting program was a high-risk area for DSS.

**Assessing Vulnerability to Risk.** In June 2000, the managers of the PSI contracting program division reported that they assessed the PSI contracting program as having a low overall vulnerability to risk. The DSS Leadership Council later reviewed the assessment for appropriateness and changed the PSI contracting program to a high-risk rating. After their initial risk assessment, the managers of the PSI contracting program did not perform any other evaluations to identify and report weaknesses within the system of management controls over the PSI contracting program. Because the managers had not evaluated the system of controls over the PSI contracting program, they had no basis of assurance for claiming that the program effectively contributed to resolution of the backlog in the overall PSI program.

**Reporting Weaknesses in Management Controls.** The DSS management did not adequately report the weaknesses in the PSI contracting program. Although management did not evaluate the controls over the PSI contracting program, it had access to information regarding ongoing investigations by the Defense Criminal Investigative Service (DCIS). In addition, the managers of the PSI contracting program received internal reports from the DSS Inspector General and other sources concerning the PSI contracting program’s operations. The DSS Inspector General provided a statement that recommended the PSI contracting program be included as a weakness in the statement of assurance. Despite multiple indicators of weaknesses, DSS management declared the PSI contracting program free of material weaknesses.

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**OIG DoD Reviews.** In its FY 2002 annual statement of assurance, DSS management inappropriately implied that the OIG DoD approved its FY 2003 contracting program. DSS stated that, "The contracting program for upcoming FY 03 has been vetted thoroughly with the Department of Defense Inspector General's office. . . ." The OIG DoD reviewed the PSI contracting program; however, it had not completed its review of the PSI contracting program when the Acting Director signed the statement of assurance. This report discusses the results of the OIG audit of the PSI contracting program. In our opinion, the audit results do not support the statement of assurance regarding material weaknesses because the PSI contracting program had pervasive weaknesses that made the program as a whole a material control weakness for the organization. The audit results are discussed in detail throughout this report.

## **Assessing and Acquiring Skills for Overseeing Contractors**

DSS had not adequately assessed the skills or obtained training to acquire the skills that its personnel needed for overseeing the PSI contracting program. DSS appointed personnel experienced in investigations but not contracting to oversee the PSI contracts. Of five CORs appointed to oversee the PSI contracts, one had contracting experience as a contractor employee and one had contracting experience as a COR for 2 years on another Government agency's contract. The CORs expressed concern about the training and preparation to oversee the PSI contracts and acknowledged that they were unfamiliar with FAR requirements.

For their duties as CORs, the CORs received a 40-hour training course, "Contracting Officers Representative Course," from a commercial provider. The training did not include discussions specific to particular contracts, such as the PSI contracts or the corresponding requirements applicable to the PSI contracts for evaluating quality and inspecting and accepting services.

DSS also appointed personnel as PSI contracting program managers who were experienced in investigations but not in contracting. The PSI contracting program managers received no training in contracting requirements or the laws and regulations that apply to contract execution and administration. The PSI program managers supervised the CORs and established procedures that channeled all communication for the contracts through the program manager, excluding direct communication between the CORs and the contracting officers and other advisors. The CORs' communication with contracting officers is discussed further in finding B.

Without more extensive contracting experience and training and informed supervision, the PSI contracting program staff cannot adequately advise and oversee the PSI contractors and comply with applicable laws and regulations.

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## **Complying with FAR and DoD Standards**

The DSS managers did not promote compliance with FAR and DoD standards. Contrary to FAR provisions that modifications to contract terms be made in writing by the contracting officer as the authorized Government representative, the PSI contracting program manager for DSS directed contractors to perform services other than as described in the contract statement of work. In addition, the PSI contracting staff allowed departures from standards established in DoD regulations and referenced in the statements of work for timely response, protecting data, and providing credentials to investigators. See finding B for a discussion of modifications to contracts and timely response, finding C for protecting data, and finding E for providing credentials.

## **Establishing Quality Assurance Procedures**

DSS had not established adequate procedures for testing the quality of contractor-performed PSI services. DSS also had not developed specific plans for inspecting contractors' operating procedures for compliance with the statements of work and DoD requirements referenced in the contracts. See finding C for a detailed discussion of quality assurance.

## **Management Emphasis on Backlog**

The PSI contracting program staff and senior management of DSS were eager to decrease the backlog of investigations and emphasized that goal over management control procedures. Management reported the backlog of requests for PSIs as a material weakness in its FY 2000 and FY 2001 statements of assurance. The backlog of requests for PSIs had received attention from GAO and from Congress, so DSS management perceived considerable pressure to reduce the backlog. As reported in its FY 2001 statement of assurance, DSS considered the contracts for PSIs to be part of the solution to the backlog. Briefings throughout the period, from 1999 when the backlog was discussed in a GAO report to the present, focused on reducing the backlog. DSS wanted to reduce the backlog of PSIs.

## **Measuring Performance of the PSI Contracting Program**

As a result of the control environment, DSS could not account for the quality of contractor-performed investigations. During the execution of the contracts, the reliability of the investigations came into question. DSS had no quality review products with which to respond to questions about the reliability and completeness of the cases. Quality assurance is discussed further in finding C.

In addition to uncertainty about the quality of investigative services, DSS experienced uncertainty regarding payments made to contractors. DSS did not

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systematically reconcile the services received to those ordered and paid, so closing out the contracts was impaired. The billings for services received and payments made are discussed further in finding D.

Another uncertainty that DSS experienced was whether contractors were issuing credential documents to persons who had the appropriate security qualifications and employment relationships. Credential documents and their issuance are discussed further in finding E.

The compilation of uncertainties affected DSS management's ability overall to measure performance of the PSI contracting program. The uncertainties about quality and billing could have generated additional investigative work and negatively affected the program goal to decrease the backlog of investigations.

## **Recent Developments Affecting PSI Contracting Program**

As reported in the November 2002 statement of assurance, in October 2002, DSS senior management aligned the PSI contracting program oversight with the internal PSI program in the PSI Directorate. DSS senior management assigned activities involving acquisition of PSIs by contract to the Resources Directorate. In December 2002, the PSI contracting program oversight office began instituting and writing positive procedural changes, such as direct communication between CORs and contracting officers. In January 2003, the Navy Air Command awarded three contracts for DSS to obtain PSI services for the remainder of FY 2003. All three contracts awarded included two 1-year options.

On January 24, 2003, the Deputy Secretary of Defense approved Management Initiative Decision 908, "Re-engineering the Personnel Security Program." When DoD implements the initiative, DoD will acquire PSI services from the Office of Personnel Management (OPM) and divest itself of PSI activities. In early February, as a result of the approved Management Initiative Decision 908, DoD formed two teams to implement the decision--one team to transform DSS into a new agency and another to transfer the PSI function to OPM. DSS should follow sound management practices to acquire services on PSI contracts in the transition period (the remainder of FY 2003). In addition, ASD (C3I) should emphasize management controls and procedures to fit the re-engineered PSI program and the transformed DSS. Including management controls and procedures in the transition plans could ensure that negative aspects of the DSS contracting control environment do not migrate to the transformed DSS or influence the re-engineered PSI program.

## **Management Comment to the Finding and Audit Response**

**Management Comment.** The Acting Director, Defense Security Service disagreed in part with Finding A, stating that given the number of "fixes" that the agency had undertaken or begun, the decision not to report any weaknesses for contracting services in the Annual Statement of Assurance was reasonable.



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However, the comments also state that the Defense Security Service does not dispute the finding.

**Audit Response.** We maintain our position that the Defense Security Service should report personnel security investigation contracting services as a material management control weakness. However, we did not intend that the Defense Security Service amend its 2002 annual statement of assurance; rather, the Defense Security Service should report it as a material weakness in its 2003 annual statement of assurance as described below.

## **Recommendations, Management Comments, and Audit Response**

**Revised Recommendation.** As a result of the Acting Director, Defense Security Service comments on the annual statement of assurance, we revised draft Recommendation A.2.b. to clarify our intent for reporting personnel security investigation contracting services as a material management control weakness in the 2003 annual statement of assurance.

**A.1. We recommend that the Assistant Secretary of Defense (Command, Control, Communications and Intelligence) direct the team that is transitioning the personnel security investigations to the Office of Personnel Management to provide a well-defined process that communicates the roles and responsibilities of DoD in accepting investigations, assessing investigation quality and timeliness, and reconciling billings and payments**

**Management Comments.** The Office of the Assistant Secretary of Defense (Command, Control, Communications and Intelligence) did not provide formal comments on the report. However, the Deputy Secretary of Defense (Security and Information Operations) agreed with the recommendation and provided informal comments that stated that the transition team is implementing a new management and organization structure for the Defense Security Service. Accordingly, the new structure is being designed to put in place an effective, comprehensive set of management controls to counter the problems addressed in the report.

**Audit Response.** The Assistant Secretary of Defense (Command, Control, Communications, and Intelligence) did not provide formal comments to the report. Therefore, we request that the Under Secretary of Defense for Intelligence provide formal comments on the report.

**A.2. We recommend that the Acting Director of the Defense Security Service:**

**a. Enforce compliance with contracting guidance and regulations.**

**b. Report personnel security investigation contracting services as a material management control weakness for the Defense Security Service in the 2003 Annual Statement of Assurance including completed corrective actions.**

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**c. Provide adequate controls for overseeing existing contracts for personnel security investigation.**

**Management Comments.** The Acting Director concurred with Recommendation A.2.a., stating that from the summer of 2001 through the winter of 2002, the Defense Security Service hired additional trained and experienced personnel to fully support the program. The Acting Director also concurred with Recommendation A.2.c. by establishing the position of the Acting Assistant Deputy Director for Augmentation to oversee the program and the award of new PSI contracts.

The Acting Director nonconcurred with Recommendation A.2.b. about the need to report personnel security investigation contracting services as a material weakness, but did not provide an alternative action other than stating that the Defense Security Service had improved and had plans to improve its procedures.

**Audit Response.** The Acting Director's comments were responsive to Recommendations A.2.a. and A.2.c. As of December 2002, the Defense Security Service had restructured the Acquisition Division and hired additional experienced staff to oversee new contracts beginning in January 2003. We considered management's comments on Recommendation A.2.b. and revised the recommendation to clarify reporting of personnel security investigation contracting services as a material management control weakness in the 2003 annual statement of assurance. We request that the Acting Director, Defense Security Service provide comments on the revised recommendation.

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## **B. Directing and Administering Contract Terms and Conditions**

The DSS PSI contracting program staff directed the contractors verbally and by email to vary the terms of the PSI contracts. By modifying the terms of the contracts verbally and by email, the PSI contracting program staff did not comply with the FAR. The PSI contracting program staff made unauthorized modifications because they had limited qualifications and training and received inadequate oversight from contracting officers to ensure that they effectively implemented contracting regulations. As a result, the Government received incomplete, late, and substandard services. In addition, DSS paid inappropriate rates in some cases and risked additional financial liability in other cases.

### **Regulation and Contract Provisions for Modifying Contract Terms**

**Regulation on Executing Contract Modifications.** FAR part 43, "Contract Modifications," 43.102, "Policy," identifies the general policy for contract modifications. It states that only contracting officers acting within the scope of their authority are empowered to execute contract modifications on behalf of the Government. The FAR further states that other Government personnel shall not:

- Execute contract modifications,
- Act in such a manner as to cause the contractor to believe that they have authority to bind the Government; or
- Direct or encourage the contractor to perform work that should be the subject of a contract modification.

**Contract Provisions.** In its statements of work for the PSI contracts, DSS states that the contracting officer is the only person authorized to approve changes in any requirement. The statement of work also states that any changes directed by any person other than the contracting officer will be considered made without authority, and that the contract price will not be adjusted to cover any increase in costs.

### **Directing Contractors**

The DSS PSI contracting program staff did not comply with the FAR. Specifically, the PSI contracting program staff, without contracting officer approval or contract modification, directed the contractors to perform services other than as described in the contract statements of work, and adjusted the amount paid for services. The PSI contracting program managers verbally and

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electronically communicated modifications to each of the PSI contractors. The verbal modifications included changes to preapproved standards without the contracting officer's incorporating the change into the contract by a formal modification document. For example, e-mail correspondence in contract F49642-00-D-5002 stated that the PSI contracting program manager approved the contractor's requested extensions of performance periods on task orders without the contracting officer's approval or documented modification of the contract. The statements of work clearly stated that any changes at the direction of a person other than the contracting officer would be without authority and would receive no adjustment in contract price.

## **Adjusting Rates and Services**

The PSI contracting program staff did not request price, schedule, or workload adjustments through the contracting officer. The PSI contracting program staff verbally modified the contract by paying for a different type of investigation than the contract line item specified, adjusting the number of days scheduled to complete an investigation, and assigning more investigations to the contractor than originally agreed upon in the contract.

For example, on contract F49642-99-D-5002, the PSI contracting program staff required the contractor to perform investigations contrary to policy stated in DSS 20-1-M, "Personnel Security Investigations Manual," October 15, 1999, and the September 10, 2001, updated version. The PSI contracting program staff verbally authorized the contractor to change the type of investigation to provide more extensive coverage. The contractor changed the case type of at least 46 investigations that would have required a modification to the task order quantity of investigations and funding amount. The contractor requested a modification to the contract and insertion of the policy change to the DSS handbook; however, the PSI contracting program staff took neither action.

In another example of verbal modification from contract F49642-00-D-5002, the contract called for the contractors to receive 100 investigations per day; however, the PSI contracting staff assigned between 400 and 500 investigations per day. The contractor requested a modification extending the delivery schedule because the per day tasking was greater than its planned resources. Although the PSI contracting program staff discussed schedule adjustments, those adjustments were not incorporated in the contract by modification until several months after the modifications occurred. Though there were no penalties for late delivery of investigations, the contractor wanted to document in a contract modification the time extensions discussed with the PSI contracting program staff. We believe that extending the timeframes would have been reasonable, given the increased workload of the contractors, and that the extensions should have been negotiated and documented in a contract modification.

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## **Developing a Qualified and Trained Acquisition Staff**

The DSS staff in the PSI contracting program were inadequately qualified and trained to implement contracting regulations effectively. The staff members were responsible for reviewing completed investigations, processing invoices, and providing technical assistance to the contractors. Discussions with the staff indicated that they had only limited training and experience in contracting when DSS awarded the PSI contract. Most of the staff members were investigators before becoming PSI contracting program staff.

The disadvantages of limited contract-related training and experience were amplified because DSS management did not emphasize contract roles and authorities to employees. In particular, the program managers did not advise the CORs of the consequences of unauthorized changes or recommendations to a contract. The PSI contracting program managers routinely left the staff out of discussions with the contracting officers on PSI contract issues and discouraged the CORs from interacting with the contracting officers.

## **Contracting Actions**

Contracting officers ensure that all requirements of law, executive orders, regulations, and all other applicable procedures, including clearances and approvals, have been met before a contract can be entered into by the Government. Contracting officers have authority to enter into, administer, or terminate contracts, make related determinations and findings, and bind the Government only to the extent of the authority delegated to them. In addition, contracting officers are responsible for ensuring performance of all necessary actions for effective contracting, ensuring compliance with the terms of the contract, and safeguarding the interests of the Government in its contractual relationships.

The contracting officers at the 11th Contracting Squadron, Bolling Air Force Base did not provide effective oversight to ensure that DSS followed contracting regulations. Specifically, contracting officers continued to allow the PSI contracting program staff to verbally communicate changes directly with the contractor, operating against regulations and guidelines. The contracting officers assigned did not impose a cure to the violations through written communications, despite several e-mails sent by the contractors regarding the conduct of DSS management staff assigned to the PSI contracting program.

The contracting officers did not make modifications to the contract when they realized the contractors were performing work outside the requirements of the contract. Also, the contracting officers allowed the contractors to execute changes to the type of investigations without modifying the contract funding. In addition, the contracting officers did not enforce an effective working relationship with the

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CORs on the DSS staff. The Defense Federal Acquisition Regulation authorizes contracting officers to designate CORs to perform specific technical duties on their behalf. The CORs and the contracting officers should maintain a close relationship to ensure that the contract is administered according to the FAR.

## **Assuring Services Quality and Costs**

As a result of unauthorized direction to contractors, DSS accepted incomplete, late, and substandard services. In addition, DSS paid inappropriate rates in some cases and risked additional financial liability in other cases.

Acceptance of incomplete and late investigations posed risks that eligibility for access to classified information was granted to individuals based on incomplete information and that customers were not able to place personnel in key positions to help complete their mission.

DSS assigned additional investigations that were not agreed to in the terms of the contract. DSS risked financial liabilities because there was no assurance that the funding was available to pay for the additional work performed by the contractors.

## **Management Comments on the Finding and Audit Response**

**Management Comments.** The Commander, 11th Contracting Squadron nonconcurred with finding B, stating that barriers beyond the 11th Contracting Squadron's control hampered its ability to hold the Defense Security Service accountable to their agreement. Those barriers delayed and prevented the 11th Contracting Squadron from complying with all contract terms and conditions during the performance of the contracts.

**Audit Response.** We acknowledge that the Defense Security Service presented barriers that interfered with the 11th Contracting Squadron's oversight and support and have added a recommendation to the 11th Contracting Squadron that will aid their ability to provide effective oversight and support and to monitor contracting officer operations for contacts maintained with customer representatives. We request that the Commander, 11th Contracting Squadron reconsider his position and provide additional comments in response to the final report.

## **Recommendations, Management Comments, and Audit Response**

**Revised Recommendation.** As a result of the 11th Contracting Squadron's comments, we revised draft report Recommendation B.2.a. to clarify the actions

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needed to establish procedures that would respond to barriers from customers that interfere with the contracting officer's effective oversight and support.

**B.1. We recommend that the Acting Director of the Defense Security Service:**

a. Direct contracting officer representatives to consult directly with contracting officers on clarifications and modifications to the contract and on questions about technical guidance.

b. Direct assigned personnel security investigation contracting staff to adhere to the Federal Acquisition Regulation and other contracting laws and regulations.

**Management Comments.** The Acting Director of the Defense Security Service concurred with the recommendation and detailed the former Deputy Inspector General as the Acting Assistant Deputy Director for Augmentation to oversee the program and the award of new PSI contracts. The Acting Assistant Deputy Director for Augmentation has encouraged and permitted direct contact and consultation between CORs and other advisory personnel. Additionally, the Defense Security Service Office of General Counsel and the Naval Air Warfare Center jointly developed an in-house, training course on contract administration and hired additional staff with knowledge and training in the applicable Federal law and regulations.

**Audit Response.** The Defense Security Service comments are fully responsive. We consider the additional training to reinforce knowledge and compliance with Federal laws and regulations a positive step and commend the Defense Security Service for its actions.

**B.2. We recommend that the Commander, 11th Contracting Squadron of the Department of the Air Force:**

a. Establish procedures that would respond to barriers from customers who interfere with the contracting officer's effective oversight and support.

b. Monitor contracting officer operations for contacts maintained with customer representatives.

**Management Comments.** The Commander, 11th Contracting Squadron nonconcurrent, stating that the 11th Squadron's ability to hold the Defense Security Service accountable to their agreement was hampered by barriers beyond their control.

**Audit Response.** We acknowledge that barriers existed with the Defense Security Service; however, we do not agree that those barriers were beyond the control of the contracting officer to provide effective oversight and support to ensure compliance with contract terms and conditions. Procedures the contracting officers might use would be notifying the managers of both the customer and the 11th Contracting Squadron chain of command of the barriers experienced. After

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the managers are notified, the contracting officers should formally request that the customer change personnel or procedures that are creating the barriers. We considered management comments on Recommendation B.2.a. and revised the recommendation to clarify the need to establish procedures to respond to barriers that interfere with the contracting officer's effective oversight and support. We maintain that the 11th Contracting Squadron should monitor contracting officer operations for contacts with customer representatives. We request that the Commander, 11th Contracting Squadron provide additional comments on the revised Recommendation B.2.a. in response to the report.



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## **C. Quality Assurance Program**

DSS did not implement an effective quality assurance program to ensure that contractors performed quality investigations and conformed to administrative, training, and managerial requirements, such as protecting Privacy Act information. DSS had not implemented an effective quality assurance program because it had not documented specific quality assurance factors and evaluation methodology for overseeing contractor performance. As a result, DSS could not ensure that the contractors conducted investigations according to relevant laws and regulations and that highly sensitive documents and information were safe from misuse and compromise.

### **Requirements for Quality Assurance and Safeguarding Privacy Act Information**

The FAR and the statement of work provide guidance on quality assurance programs, including contractors' responsibility to protect Privacy Act information.

**FAR Quality Assurance.** FAR subpart 46.4, "Quality Assurance," states that quality assurance shall be performed at the times and places necessary to determine that services conform to contract requirements. The FAR further states that the surveillance plans for quality assurance should be prepared in conjunction with the statement of work. Government contract quality assurance is defined as various functions, including inspection, performed by the Government to determine whether a contractor has fulfilled the contract obligations pertaining to quality and quantity.

**Statement of Work Quality Assurance.** The statement of work says that DSS will initiate a quality assurance surveillance program that adequately ensures the quality and timely performance of all requirements in the statement of work. In addition, three of the contract statements of work stated that DSS would ensure compliance with the provisions of the statement of work through a 100-percent review of investigations with negative information, random sampling of completed investigations without negative information, and review of administrative, training, and managerial processes.

### **Significance of Quality Assurance**

Quality assurance is essential to the personnel security investigation process because it provides assurances that DoD grants eligibility to access classified information and to occupy sensitive positions based on valid, complete information and pays for the services and conditions for which it contracted. An effective quality assurance program for PSI services should ensure that contractor-performed investigations included following leads, checking for criminal activities, and interviewing personal references. For example, if the contractors do not

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conduct background checks, a criminal act could be missed and the information would not be included in the final report of investigation used to determine whether or not the individual is eligible for access to classified information or to occupy a sensitive position. That missed criminal record could result in an unqualified individual gaining access to sensitive or classified information that is vital to national security.

## **Controls for Investigative Quality and Information**

DSS did not implement an effective quality assurance program to determine whether contractors performed quality investigations and conformed to administrative, training, and managerial requirements, such as protecting Privacy Act information. In addition, DSS did not provide records to show that it evaluated investigations to determine whether contractors completed background checks, interviewed all personnel, or performed investigations according to Federal and agency policies.

From May 2001 to August 2001, DSS monitored contract investigators in the same way that it monitored its internal investigators, by accompanying the investigator and evaluating performance and compliance with DSS investigative standards. DSS conducted eight evaluations during that period. Seven of the eight contractor investigators failed their evaluations, meaning that they were not performing according to DSS investigative standards. Reviewing performance of contract investigators was contrary to the non-personal service type of contract that DSS had for investigative services. The DSS contracts were for investigative services that are specifically described as non-personal. According to FAR 37.104, "Personal Services Contracts," non-personal services preclude an employer-employee relationship between Government personnel and contractor personnel. One criteria for whether services are non-personal in nature is whether the service can be specifically ordered with the right to reject the finished product or result.

DSS did not have a formal or documented process for evaluating investigations for the PSI contracts awarded before August 2000. DSS staff began evaluating investigations in October 2001. DSS management instructed staff to set a goal of evaluating 20 investigations per week. However, management did not provide instruction to evaluate a certain number of cases by type of case as required by the provisions in three of the statements of work. Before October 2001, DSS staff evaluated investigations when they were returned by the DSS case analysts at the Personnel Investigations Center. Those evaluations were limited; the focus was to ensure that the contractors completed all investigative leads. However, DSS staff did not evaluate the investigations to make sure the contractors performed those leads.

The evaluations of contract investigators and the limited number of cases were the only indications that DSS provided quality assurance and oversight. DSS discontinued evaluating contract investigators' performance. The DSS evaluations of reports of investigation by CORs and case analysts did not meet the terms of quality assurance outlined in the statement of work. According to three of the statements of work, DSS would ensure compliance by reviewing 100 percent of

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the investigations with issues and a sampling of investigations without issues. However, those statements of work did not describe what constitutes a review. DSS could not provide operating procedures or acquisition plans that described the basis for review. Further, the statement of work specifies that inspection and acceptance of the contractor performed investigations would occur at destination, which we interpret to mean that the report of investigation would be examined for completeness and adherence to standards when delivered as a completed case to DSS.

## **Plans and Resources for Quality Functions**

DSS had not implemented an effective quality assurance program because it had not documented specific quality assurance factors and an evaluation methodology for overseeing contractor performance.

DSS management had not prepared a quality assurance program. The statement of work states that DSS will initiate a quality assurance program that adequately ensures the quality and timely performance of all requirements of the statement of work and may direct corrective measures as appropriate. Plans and procedures for evaluating the quality of products and services are a requirement of Federal Management Control Standards and the FAR. DSS management did not require procedures for quality assurance of the contractor-performed investigations. DSS initially had a quality assurance program, but it was terminated shortly after it began. The program was modeled after an internal DSS program for its employees, but it was inappropriate because reviewing performance of contractor investigators was contrary to the non-personal service contract that DSS had for investigative services.

DSS staffing was not sufficient to evaluate the quality of investigations. The PSI contracting program staff had five members assigned as CORs for the five PSI contracts, which meant that only one staff member was responsible for each contractor. The contracts averaged 11 task orders, each with an average of 2,445 investigations per task order. Realistically, one staff member could not evaluate and test the investigation and verify completeness and adherence to standards for 100 percent of cases with negative information and a sampling of cases without negative information for each contract.

Instead of planning and providing adequate resources for quality assurance, DSS attempted, in three of the statements of work, to transfer the responsibility for reviewing the investigations to the Central Adjudication Facilities. Specifically, the statements of work described completed investigations as investigations that adjudicators deemed complete. The statements of work further stated that the adjudicators demonstrated acceptance by not returning the investigation for corrective action. Because the Central Adjudication Facilities were not a part of DSS, and thus not a party to the contracts, the DSS transfer of responsibility through the statement of work was not appropriate.

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## Safeguards for Information and Documents

**FAR Privacy Act Provisions.** FAR 24.104, "Contract Clauses," states that when the design, development, or operation of a system of records on individuals is required to accomplish an agency function, the contracting officer shall insert the following specific FAR clauses:

**FAR 52.224-1, "Privacy Act Notification."** The clause states that the contractor will be required to design, develop, or operate a system of records on individuals, to accomplish an agency function subject to the Privacy Act of 1974 and applicable agency regulations. Violation may involve the imposition of criminal penalties.

**Part 52.224-2, "Privacy Act."** The clause states the contractor agrees to comply with the Privacy Act of 1974 and the agency rules and regulations issued under the Act in the design, development, or operation of any system of records on individuals to accomplish an agency function.

**Statement of Work Privacy Act Provisions.** The statements of work specify that information collected for PSIs is protected under the Privacy Act of 1974. In addition, the statements of work incorporate by reference information management requirements from the following regulations

DoD Regulation 5200.1-R, "Information Security Program," January 1997,

DoD Regulation 5200.2-R, "Personnel Security Program," 1987, as amended,

DSS Regulation 25-1-R, "Information Security Program," April 1988, as amended,

DSS Regulation 25-2-R, "For Official Use Only Information," December 1988, and

DSS Manual 20-1-M, "Personnel Security Investigations Manual," October 15, 1999, and the September 10, 2001, updated version.

Adequate oversight was not in place to ensure that the contractors followed the provisions in the statements of work, the Privacy Act of 1974, and Federal and agency regulations. In addition, DSS did not have adequate accountability for credentials issued to contractors. The handling of DSS investigator credentials is further discussed in finding E. In addition to determining whether DSS receives quality information, the quality assurance procedures should determine whether the contractors are handling and safeguarding highly sensitive information and documents properly.

Investigators are required to protect sensitive personal information obtained during an investigation in accordance with the Privacy Act of 1974. The statements of work state that information collected as part of a PSI is protected under the Privacy Act of 1974. In addition, the statements of work incorporate by reference

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the Privacy Act of 1974, DoD and DSS information management regulations, and DSS 20-1-M. Those documents contain specific guidance on handling, protecting, and disclosing sensitive personal information.

If personal information gathered during the course of the investigation is not properly safeguarded, it could be misused. For example, the information could be used to steal an individual's identity, which could result in serious criminal and financial problems as well as personal embarrassment for the individual whose information was not properly safeguarded.

## **Conclusion**

DSS had no assurance that the contractors conducted investigations according to laws and regulations and that highly sensitive information was safe from misuse and compromise. As a result, the DoD is at risk that eligibility for access to classified information or sensitive Government facilities, equipment, and materials, may be granted to unqualified individuals and that sensitive personal information may be compromised. Inadequate quality control and oversight of contractor performance pose a risk for wrongful adjudication of clearances based on inaccurate or incomplete investigative information. Those inadequacies could also result in unqualified individuals being granted eligibility for and given access to sensitive or classified information or sensitive Government facilities, equipment, and materials.

The potential also exists for release of sensitive information that could be personally damaging to individuals seeking to occupy sensitive positions or gain eligibility to access classified information. The sensitive information contained in investigative files could be compromised and cause personal embarrassment or lead to identity theft, which could cause both criminal and financial difficulties for the subject of the investigation. DSS needs to ensure that an oversight program is instituted to monitor contractors for adequate safeguarding of information protected by the Privacy Act of 1974.

## **Recommendations, Management Comments, and Audit Response**

**C. We recommend that the Acting Director of the Defense Security Service:**

**1. Implement specific operating procedures for quality assurance, to include inspecting and reviewing investigative services, for the remainder of the active contracting period.**

**2. Plan the methodology needed and provide the resources to adequately evaluate the quality, inspect the services, and accept the completed investigations from personnel security investigation contractors.**

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**3. Verify that contractors are aware of and adhere to requirements for protecting Privacy Act information.**

**Management Comments.** The Acting Director concurred stating that, in 2001 and 2002, the Defense Security Service conducted surveys on the reliability of local agency checks and the quality of work performed under PSI contracts, respectively. The 2001 results concluded that local agency checks were not reliable and that the agency was redoing them all. The analyses of the 2002 survey are not complete. However, DSS will assess whether a risk to national security exists and take corrective action as necessary. As of January 2003, DSS implemented a comprehensive quality assurance program to conduct reviews of contractor processes and work products and to help to ensure that contractors and Defense Security Service employees are aware of and adhere to the requirements of the Privacy Act of 1974.

**Audit Response.** Management comments were generally responsive; however, we request that the Defense Security Service provide a detailed plan to address the contracts that ended in December 2002.

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## **D. Invoicing Procedures**

The DSS PSI contracting program staff approved payments of invoices without reconciling the investigations to the task orders on which DSS staff assigned the investigations to the contractor. DSS staff did not reconcile the task orders to invoices because DSS had not defined invoicing procedures in the statement of work and had not established its internal procedures for reconciling invoices. In addition, DSS did not successfully implement the information system to reconcile invoices to the cases assigned to contractors until August 2002. As a result, based on our review of a limited number of task orders, DSS experienced multiple overpayments for services totaling \$2.9 million and erroneous payments for canceled cases or additional investigative leads. The erroneous payments led to DSS paying more than it had funded for specific line items on task orders.

## **Guidance for Invoicing and Contractor Performance**

Financial Management Regulation, Volume 10, Chapter 9, "Contractor Invoices," includes the procedures for invoicing to prevent duplicate billings. The Regulation states that the original invoice must be submitted to the paying office as a condition of the contract, and that all duplicate invoices must be marked in bold letters to alert the handler and prevent double payments. Further, the Regulation requires that when an invoice is received without a delivery order, the invoice should be returned and resubmitted with a proof of delivery.

FAR 32.905, "Payment Documentation and Process," states that the payment and the billing office must date when the invoice and the receiving report are received. FAR 32.909, "Contractor Inquiries," requires that the contracting officer coordinate within appropriate contracting channels and seek the advice of other offices as necessary to resolve disagreements or direct questions involving delinquent payments and disagreements in payment amount or timing to the contracting officer for resolution.

## **Invoicing on Task Orders**

The PSI contracting program staff approved payments of invoices without reconciling the investigations to task orders on which DSS staff assigned the investigations to the contractors. Task Order 5009, on contract F4964299D-5002, provided an example of departures from financial and acquisition criteria for invoicing and payment that are described below.

The contractor invoiced the cases as they were completed without associating the cases with the appropriate task order. As a result, it was difficult to track completed cases on each task order and to identify names, canceled cases, and leads per canceled case that the contractor submitted to DSS for payment.

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The investigation deliverables were difficult to trace to the task order because the identifying information about completed cases that the contractors submitted to DSS on the invoices differed from the identifying information on cases that DSS provided to the contractor on the task order. The information was not comparable because the only common identifier was the name of the subject of each case. Other important identifying information, such as social security numbers, was not used on both lists.

The number and dollar amount for Top Secret Periodic Reviews (TSPRs) and Single Scope Background Investigations (SSBIs) for the task order were exceeded when the contractor submitted the invoice to DSS. The task order amounts were exceeded because the COR included canceled cases and investigations completed on contractor personnel in addition to the original number of investigations required on the task order. DSS personnel did not see this as an issue because the overall task order dollar value did not exceed the amount obligated. However, the contract line item number was exceeded for TSPRs and SSBIs.

## **Defining Invoicing Procedures**

DSS staff did not reconcile the task orders to invoices because DSS had not defined invoicing procedures or established internal procedures for reconciling invoices. Contract invoicing practices were not adequate to assign a proper audit trail and cost to the task orders. Specifically, the invoices were processed manually by DSS, which made it difficult to track invoice payments to the correct task order. In addition, the contractor incorrectly submitted the invoices.

**Procedures for Submitting Invoices.** The statements of work did not provide adequate procedures on the billing process of the letter contracts. The contractor submitted invoices to one task order for investigations that DSS ordered on various task orders. The COR submitted invoices for payment without associating the completed investigations with the proper task order. This process made it difficult to track payment of cases assigned to each task order.

The task order funds a specified quantity, a not to exceed amount, and type of investigation. DSS processed invoices against task orders that did not allow for the level of investigation. One contract was designed to identify the type of investigation by the contract line item. For example, line item one was for TSPRs and line item two was for SSBIs. Inadequate reviews allowed the contractor to invoice investigations to the wrong line item of a task order. Because the invoicing process was performed manually with limited staff and insufficient reviews, improper payments occurred and contract requirements were not met.

DSS also used poor contracting practices by allowing the contractor to submit invoices that exceeded the dollar value and number of cases per task order, which violated the contract.

**Procedures for Reconciling Invoices.** From September 1999 until June 2001, invoices were processed manually. The DSS COR submitted cases to the contractor by task order and an accompanying tasking letter. The number of cases



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included on individual task orders ranged from 500 to 2,000. The contractor did not have to complete a task order before issuing or starting a new one. When the contractor completed cases, the contractor submitted hard copy invoices and Material Inspection and Receiving Reports (known as DD Forms 250) to the COR, who compared the invoices to the associated reports of investigations submitted by the contractor. Initially, due to a lack of resources, one COR per contract was performing the process manually. DSS initiated an improvement to that process. As of June 2001, the contractor procedure was for the contractor to electronically submit invoices from which the COR then entered data into the Case Tracking System (CTS). The CORs reviewed and corrected transactions rejected by the system.

## **Tracking Invoices Through CTS**

Before August 2002, DSS had not successfully implemented the CTS to reconcile invoices to the cases assigned to contractors. The cases assigned to contractors were coded and assigned through a system called the Case Control Management System (CCMS), which had no direct interface with CTS.

**Reconciling Investigations Using CTS.** The CTS was not developed to reconcile to CCMS nor was CTS available to process all invoices. DSS designed CTS to account for invoice payments and to assist in faster, easier payments. However, the accuracy of CTS data depended on the timing of data transfers from CCMS.

The data transferred from CCMS to CTS did not include key elements for verifying payment information. Although available in the CCMS, the type of investigation assigned to the contractor (SSBI or TSPR) was not a transferred piece of information to the CTS. The type of investigation determined the amount paid for the investigation.

In addition to missing information about the type of investigation, CTS was missing historical information critical to reconciling task orders to invoices, invoices to delivery orders, delivery orders to payment approvals, and payments to invoices and approvals. The incomplete history was important because contractors submitted single invoices that charged for investigations assigned on multiple task orders and investigations accepted on multiple delivery orders that did not correspond to either the invoice or a specific single task order. A case was the only unit that could be reconciled across all documents and systems. Cases were identified by different pieces of information from one document or system to another; that is, one system used the name, another used the social security number, and another used the case number. CTS could not be used effectively to reconcile all invoiced cases because of the limitations in historical information and case data.

**Defense Finance and Accounting Service Payments.** In addition to mismatches between CCMS and CTS, the PSI contracting program staff could not reconcile Defense Finance and Accounting Service records of payment to other records for the PSI contracting program. For example, for one contractor, as of

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November 25, 2002, PSI contracting program records showed payments made of \$28.5 million; and the Defense Finance and Accounting Service records showed payments of \$25.4 million. Because the PSI contracting program exhausted the funds on some task orders, according to Defense Finance and Accounting Service records, the Defense Finance and Accounting Service partially paid invoices it linked to those task orders with exhausted funds. In other cases, the Defense Finance and Accounting Service paid invoices multiple times because of confusion over invoice references to multiple task orders.

**Payments for Canceled Cases.** Investigation cases that DSS canceled after assigning them to a contractor were another source of confusion in paying invoices. When DSS canceled a case, the contractor would invoice those cases at a reduced or "cancellation" price. The practice of partial payment for canceled cases was not compatible with task order funding. The task orders were made and funded at a fixed cost per completed case. The task orders made no provisions for the possibility of partially completed work that would require partial funding, therefore some task orders had unexpended funds upon completion because of canceled cases. To use the unexpended funds, PSI contracting program staff tasked extra cases to the contractor to substitute for canceled cases. The CORs had no process to track the funds and the trade-off between partial and substituted cases, so that assigning those extra cases caused the approved funded amount to be exceeded. The PSI contracting program staff should have initiated modifications to the task orders through the contracting officer to adjust for partially completed cases, to add substitute cases, and to manage funding.

## **Paying for Additional Leads**

Yet another source of confusion on paying invoices and managing funds was add leads. The PSI contracting program management had not clearly defined or developed uniform procedures for payment on investigative work identified outside the timeframes or case type, work generally known as add (additional) leads. The PSI contracts included no definition or payment schedule for add leads, and DSS had not modified the contracts to rectify that omission. Contracting staff, case analysts, and contracting officers indicated that they handled add leads on a case-by-case basis with different results on each contract. Inconsistent understanding of add leads by the CORs and case analysts led to inconsistent assignment and payment for add leads. For some cases, the CORs authorized payment at full price and for others they authorized payment at the cancellation price.

## **Matching Invoices, Payments, and Services Received**

As a result of unreconciled invoices, partially completed cases, and undefined add leads, DSS experienced overpayments for services on six task orders from one

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contractor totaling \$2.9 million. In addition, DSS authorized unplanned and unscheduled payments for canceled cases and add leads. Those overpayments and unplanned payments caused DSS to exceed task order funding.

On multiple occasions, the CORs authorized payment for a case type that exceeded the funding for that case type on the task order. An example of the invoicing confusion is illustrated by one contractor's invoice number 9 for payment of four SSBI cases costing \$7,565.68 and citing task order 5009. Task order 5009 assigned no SSBI cases. Of the four cases invoiced on invoice 9, three were not recorded in CTS and one had been assigned on task order 5006.

In another case, task order 5012 authorized 919 TSPR cases funded at \$1,002,932. CTS recorded invoiced payments against that task order amounting to \$1,017,849 for 998 TSPR cases. The task order funding was deficient by \$14,186.

## **Recommendations, Management Comments, and Audit Response**

**D.1 We recommend that the Acting Director of the Defense Security Service implement procedures to reconcile contractor invoices to the task orders on which investigations were assigned, delivery orders on which investigations were accepted, and vouchers on which investigations were paid.**

**Defense Security Service Comments.** The Acting Director concurred and has modified the DSS Case Tracking system to more effectively reconcile PSIs tasked to the contractors, contractor invoices, and other data to ensure prompt payment for work completed under contracts awarded in January 2003. DSS has or is in the process of implementing procedures to monitor delivery order status and payments made to its PSI contractors. DSS is working closely with Naval Air Warfare Center to ensure that accepted delivery orders, tasking, invoicing, and payment procedures are used by both the government and the contractors. Additionally DSS obtained cooperation from the Contracting Officer at the 11th Contracting Squadron in facilitating a reconciliation audit of contract F49642—99-D-5002. The Defense Contracts Management Agency has agreed to conduct the reconciliation audit.

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## **E. Contractor Accountability for Credentials**

The DSS PSI contracting program staff had not adequately accounted for or controlled investigator credentials that were assigned to contractors. The accountability and control inadequacies occurred because DSS management and its PSI contracting program staff had not established adequate procedures and had not followed the controls identified in the statement of work. Specifically, the management staff had not required DSS CORs to provide adequate oversight of contractor efforts to protect credentials. In addition, procedures in the statement of work that used specific language contradicted those that referenced DSS regulations. As a result, DSS had not accounted for more than 11 percent of the 4,625 credentials provided to contractors. In addition, the opportunity for credentials to be compromised increased due to the loss of accountability.

### **Purpose of Credential**

The DSS credentials provided to contractors identify investigators as DSS contractor personnel. From October 1, 1999, until May 9, 2002, the contractors performing PSIs issued credentials to the investigators working for them. A credential authorizes a contractor-employed investigator to conduct personnel investigations on behalf of the DSS. The bearer of a DSS credential may be authorized access to DoD facilities and to information necessary to perform investigative duties. Therefore, credentials provide identification for individuals to collect personal information about persons seeking eligibility to work with classified information or occupy sensitive positions. DSS credentials are sensitive items that investigators must protect from loss and theft at all times. An investigator with a credential is not allowed to use the credential for identification or personal business. Using or allowing the use of DSS credentials for other than official duties is considered sufficient cause for disciplinary action, a fine, or 6 months in prison. Anyone who falsely makes, forges, counterfeits, alters, reproduces, or tampers with DSS credentials is subject to disciplinary action, a fine, or 5 years in prison.

### **Guidance on Credential Use and Issue**

**DSS Guidance on Credentials.** DSS Regulation 01-6, "Badges and Credentials," February 2, 1999, states that the primary badge and credential custodian must be at least a grade seven on the general pay schedule for Government employees; therefore, the credential custodian must be a Government employee. The regulation defines the process that the custodians are required to use for issuing, controlling, and maintaining credentials. During initial credential transmissions, the custodian must directly issue the credential to the intended receiver and complete DSS Form 37, "Badges and Credential Receipt." Supervisory personnel are required to inform investigators of the guidelines for the proper use and protection

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of credentials when credentials are issued and annually thereafter. In addition, each credential custodian is responsible for completing an annual physical inspection of all credentials in inventory, either issued to investigators or still on hand, about October 15 of each year. A contractor's investigator credential may be issued to an individual who meets the requirement for eligibility to access Top Secret classified information as a DoD contractor and has a current contractual agreement with DSS to conduct PSIs.

**Statements of Work.** The statements of work for the PSI contracts required the contractors to protect, control, and issue credentials in accordance with DSS Regulation 01-6. In addition, the statements of work required that the contractors provide the CORs with each investigator's name and social security number so the COR could review the investigator database to ensure that each investigator had not received credentials from another contractor. The statements of work also required that the contractors return all credentials at the end of the contract. For any credentials not returned, the contractor was to explain the circumstances and reasons in writing. According to the statements of work, each contractor was to provide a monthly credential accountability report to the COR. The accountability reports were to contain information, by identification number, on credentials provided to investigators. The total number of credentials available but unused was also to be part of the report.

**Discrepancy in Guidance.** The DSS Regulation 01-6 requirement that the custodian, a Government employee, must directly issue the credential to the intended receiver conflicts with the statements of work for PSI contracts requirement for the contractors to issue credentials to the investigators performing investigative work under the contract.

## **Control Over Credentials**

The PSI contracting program staff had neither adequately accounted for nor controlled contractor credentials. For more than 18 months, the contractors received 4,625 credentials to issue. During the life of the contracts, the contractors were in charge of those credentials. During recruitment, contractors often sent packages to investigators, which included blank credentials and contractual agreements. However, DSS Regulation 01-6 requires a contractual agreement with investigators and DSS before the issuance of credentials. Therefore, the contractors compromised credentials and the following conditions occurred: 169 of the credentials identified as unissued had names associated with them, 28 blank credentials were lost, 18 credential holders were not returned with the credential, an investigator used a credential with an incorrectly spelled name, 2 credentials were never laminated, and 16 credentials were issued to investigators with invalid eligibility to occupy a sensitive position. In the spring of 2002, the database established to track the current location of each credential identified 118 credentials destroyed, 41 credentials lost, 111 credentials not issued or not returned to DSS, 237 issued and not returned credentials, and 19 partially returned credentials (either the top or bottom).

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The contractors destroyed 118 issued and not issued credentials. The appropriate Government officials did not destroy the contractor credentials. The only verification of the destruction of those credentials was provided in monthly credential accountability reports. However, each monthly accountability report did not account for all destroyed credentials. The DSS Chief of Security stated that the contractors should have provided destruction reports for each credential in accordance with DSS Regulation 01-6.

## **Accountability for Credentials**

DSS did not create an investigator database until the spring of 2002. However, the statements of work required the CORs to use a database to ensure that the investigator had not received DSS credentials. The database identified three credentials created for investigators that already had DSS credentials. However, inadequate records made it impossible to determine the actual number of credentials created for DSS contractor-employed investigators.

After DSS established the database, DSS used it to monitor the status of each credential. However, the database did not accurately display the condition of each credential until January 2003. DSS was unaware of the significant variances between the actual and reported status of credentials, but took action to correct the database when those discrepancies were identified. The database, supplied in November of 2002, reported 33 percent of credentials outstanding. However, the corrected database identified more than 11 percent of credentials outstanding.

## **Credential Custodians**

The statement of work and DSS Regulation 01-6 contain discrepancies. The statement of work requires the contractor to handle certain credential custodian duties, such as preparation and issuance, retrieval from investigators, and maintenance of unissued and related supplies. DSS Regulation 01-6 requires that an annual inventory of credentials be completed by the credential custodian and that the credential custodian be a Government employee. Although the statement of work required the contractors to follow the DSS Regulation 01-6, the statement of work did not specify that the contractor should appoint a credential custodian, and DSS did not appoint credential custodians for the contractors. Because the contractors had no appointed custodians responsible for the inventory as required by DSS Regulation 01-6, annual inventories of credentials were not completed.

DSS management and DSS PSI augmentation staff did not clarify discrepancies between the statement of work and DSS Regulation 01-6. DSS did not provide specific criteria or guidance for the format of the monthly credential reports; therefore, the monthly credential reports varied among contractors. In addition, DSS management did not appoint augmentation staff to maintain a central credential database until the spring of 2002, 2 1/2 years after the first contractor credential was issued. As a result, DSS records identifying the location of each credential were inadequate.

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DSS management did not adequately oversee the COR responsibility of reviewing contractor work. The statement of work required the contractors to provide credential accountability reports to the CORs. These reports identified the credential numbers assigned to each investigator, the destroyed credentials, and the credentials that were not issued. However, the monthly reports did not always identify each credential supplied to the contractor; the missing credentials were identified during the audit. Therefore, the COR did not review the credential accountability reports for completeness.

## **Loss of Accountability**

The inability of the DSS central credential database to track credentials resulted in an increased opportunity for DSS contractor credentials to be compromised. By not accurately tracking or controlling the credentials, DSS allowed contractors to provide investigators authorization to access DoD facilities and highly sensitive personal information in the performance of their duties. The contractors issued two unlaminated credentials to investigators. Not laminating the credentials increases the risk of a person with dishonest or hostile intent duplicating or changing the credential increased. Investigators had not returned 237 credentials even though all investigative work stopped in December 2002; therefore, if used, those credentials have been misused.

## **Conclusion**

DSS cannot account for more than 11 percent of the 4,625 credentials provided to contractors. In addition, the potential for compromise of the credentials increased due to the loss of accountability.

## **Recommendations**

**E. We recommend that the Deputy Director, Defense Security Service Personnel Security Investigations:**

- 1. Assign the contracting officer representatives as the credential custodians to implement the responsibilities defined in Defense Security Service Regulation 01-6.**
- 2. Reconcile all credentials assigned for contractor use to the records of credential disposition.**
- 3. Recover credentials from all contractors and contractor investigators who are no longer authorized because the contract period has expired.**

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**Management Comments.** The Acting Director concurred with the recommendation. In April 2003, the Acting Assistant Deputy Director for Augmentation began contacting investigators to verify the status of previously issued credentials identified as lost or destroyed. The Acting Director stated that the process of collecting credentials to reissue them for January 2003 PSI contracts provided DSS with an additional opportunity to account for credentials. DSS will pursue the issue until all remaining credentials or blank credentials are identified. Additionally, for contracts awarded in January 2003, DSS has implemented detailed procedures to issue credentials to contract investigators in accordance with the agency's Badge and Credential Regulation 01-6.



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## Appendix A. Scope and Methodology

We reviewed the statement of work for the PSI contracts, DSS management control documents, results of contract investigator evaluations, PSI contractor invoices and task orders, contractor credential reports, the FAR, and DSS regulations. In addition, we reviewed the DSS FY 02 Annual Statement of Assurance. The documents we reviewed were dated from July 1989 through January 2003. We interviewed personnel from DSS, Naval Air Warfare Center, 11th Contracting Squadron, Defense Contract Audit Agency, PSI program, and OPM.

We performed this audit from March 2002 through April 2003 in accordance with generally accepted government auditing standards.

We analyzed invoices and task orders to determine proper contractor payments and billings. We identified FAR and DSS regulations on contract modifications, quality assurance programs, and credentials and compared processes used by DSS to those regulations. In addition, we reviewed the DSS credential database for accountability of investigative credentials issued to contractors.

**Use of Computer-Processed Data.** We relied on computer-processed data to evaluate the accountability of investigator credentials. We obtained the data from a database created using commercial database software by a program analyst in the PSI Directorate. We did not evaluate the general and application controls of the database software, although we relied on data produced by the database to conduct the audit. We did not evaluate the controls because the program is a widely used commercial product used to store data. However, not evaluating the controls of the database did not affect the results of the audit.

**GAO High-Risk Area.** The GAO has identified several high-risk areas in DoD. This report provides coverage of the DoD Contract Management high-risk area.

### Management Control Program Review

DoD Directive 5010.38, "Management Control (MC) Program," August 26, 1996, and DoD Instruction 5010.40, "Management Control (MC) Program Procedures," August 28, 1996, require DoD organizations to implement a comprehensive system of management controls that provides reasonable assurance that programs are operating as intended and to evaluate the adequacy of the controls.

**Scope of the Review of the Management Control Program.** We reviewed the adequacy of DSS management controls over contract administration. Specifically, we reviewed DSS controls over processing invoices for payments, billing on task orders, issuing credentials to contractors, conducting quality reviews, protecting personal information, and compliance with FAR and DoD regulations. We also reviewed the adequacy of management's self-evaluation of those controls.

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**Adequacy of Management Controls.** We identified material management control weaknesses for DSS as defined by DoD Instruction 5010.40. DSS management controls for the contract administration were not adequate to ensure proper invoice payments, adherence to billing requirements, protection of Government credentials from unauthorized use, approved authorization for contract modifications, and protection of personal information from contractor abuse. All recommendations, if implemented, will improve the DSS Contract Administration procedures. A copy of the report will be provided to the senior official responsible for management controls in DSS.

**Adequacy of Management's Self-Evaluation.** DSS officials identified contract administration as part of an assessable unit. However, in their evaluation, DSS officials did not identify the specific material management control weaknesses identified by the audit because the DSS evaluation covered the DSS PSI program for personal services. In addition, DSS did not report the material weaknesses in its annual statement of assurances because it did not consider the weaknesses important enough to report to higher management.

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## Appendix B. Prior Coverage

During the last 5 years, the General Accounting Office has issued one report and the IG DoD has issued seven reports discussing personnel security investigations and eligibility for access to classified information in DoD. Unrestricted GAO reports can be accessed over the Internet at <http://www.gao.gov>. Unrestricted Inspector General of the Department of Defense (IG DoD) reports can be accessed at <http://www.dodig.osd.mil/audit/reports>.

### GAO

GAO Report No. NSIAD-00-12 DoD Personnel, "Inadequate Personnel Security Investigations Pose National Security Risks," October 1999

### IG DoD

IG DoD Report No. D-2003-066, "Controls over the Use and Protection of Social Security Numbers," March 21, 2003

IG DoD Report No. D-2002-138, "Allegations Concerning the Management and Business Practices of the Defense Security Service," August 9, 2002

IG DoD Report No. D-2001-065, "DoD Adjudication of Contractor Security Clearances Granted By the Defense Security Service," February 28, 2001

IG DoD Report No. D-2001-019, "Program Management of the Defense Security Service Case Control Management System," December 15, 2000

IG DoD Report No. D-2001-008, "Resources of DoD Adjudication Facilities," October 30, 2000

IG DoD Report No. D-2000-134, "Tracking Security Clearance Requests," May 30, 2000

IG DoD Report No. D-2000-111, "Security Clearance Investigative Priorities," April 5, 2000

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## **Appendix C. Report Distribution**

### **Office of the Secretary of Defense**

Under Secretary of Defense (Comptroller)/Chief Financial Officer  
Deputy Chief Financial Officer  
Deputy Comptroller (Program/Budget)  
Deputy Under Secretary of Defense (Acquisition Reform)  
Under Secretary of Defense for Intelligence  
Deputy Assistant Secretary of Defense (Security and Information Operations)

### **Department of the Army**

Auditor General, Department of the Army

### **Department of the Navy**

Naval Inspector General  
Auditor General, Department of the Navy  
Commander, Naval Air Warfare Center

### **Department of the Air Force**

Assistant Secretary of the Air Force (Financial Management and Comptroller)  
Auditor General, Department of the Air Force  
Commander, Bolling Air Force Base  
Commander, 11th Contracting Squadron

### **Other Defense Organization**

Acting Director, Defense Security Service

### **Non-Defense Federal Organization**

Office of Management and Budget  
Office of Personnel Management

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## **Congressional Committees and Subcommittees, Chairman and Ranking Minority Member**

Senate Committee on Appropriations  
Senate Subcommittee on Defense, Committee on Appropriations  
Senate Committee on Armed Services  
Senate Committee on Governmental Affairs  
House Committee on Appropriations  
House Subcommittee on Defense, Committee on Appropriations  
House Committee on Armed Services  
House Committee on Government Reform  
House Subcommittee on Government Efficiency and Financial Management, Committee  
on Government Reform  
House Subcommittee on National Security, Veterans Affairs, and International Relations,  
Committee on Government Reform  
House Subcommittee on Technology, Information Policy, Intergovernmental Relations,  
and the Census, Committee on Government Reform

# Department of the Air Force Comments

Final Report  
Reference



## DEPARTMENT OF THE AIR FORCE 11TH WING

13 MAY 2007

MEMORANDUM FOR ASSISTANT INSPECTOR GENERAL FOR AUDITING  
OFFICE OF THE INSPECTOR GENERAL  
ATTENTION: MS. JUDITH L. PADGETT

FROM: 11 WG/CC  
20 MacDill Blvd., Suite 300  
Boiling AFB DC 20032-0101

SUBJECT: Air Force Response to Contracting Practices of the Defense Security  
Service for Personnel Security Investigations, Project No. D2002AD-0041.001,  
dated 25 Apr 03

1. This memo is in reply to your memorandum requesting the Assistant  
Secretary of the Air Force (Financial Management and Comptroller) to provide  
Air Force comments on subject report.

2. The 11<sup>th</sup> Wing does not concur with the findings and recommendations  
specified in paragraphs B.2 (a) and (b) of the draft report. The 11<sup>th</sup> Contracting  
Squadron (11 CONS) had the overall responsibility for making sure that contract  
management was properly maintained throughout the life of the contracts. For  
reasons specified on the attachment, 11 CONS' ability to hold the Defense  
Security Service (DSS) accountable to their agreement was hampered by factors  
beyond 11 CONS' control. These barriers delayed and prevented 11 CONS from  
ensuring that all contract terms and conditions were complied with during the  
performance of the contracts.

3. We trust that comments provided in the attachment will be taken into  
consideration when the final document is released. There are no additional  
comments as a result of the material management control weaknesses  
discussed in Appendix A. Request a formal briefing of the results. If there are  
any questions, please contact Ms. Denise Elkerson at (202) 767-8094.

*William A. Chambers*  
WILLIAM A. CHAMBERS, Colonel, USAF  
Commander

Attachment:  
Comments

WORLD-CLASS PEOPLE - WORLD-CLASS SUPPORT

Revised

#### COMMENTS

The Deputy Secretary of Defense authorized DSS to reduce the backlog of security clearances as one of DSS's primary goals. Personnel from the Department of Defense (DoD) were aware of the requirement for proper management and oversight of contracts, which could greatly impact national security.

11 CONS negotiated appropriate rates on all security contracts. DSS established procedures for processing payment based on their technical analysis of contractors' work submittals. Unfortunately, they did not systematically reconcile the services received to those ordered and paid. The Contracting Officer Representatives (CORs) located at DSS offices were responsible for reviewing the contractors' submittals, determining if they met DSS standards, and determining the amount of payment the contractor should have received based on DSS standards. DSS CORs certified documents for payment and submitted copies to 11 CONS. 11 CONS compared the invoiced unit prices to the contract schedules to ensure they matched. The appropriate unit price depended on the date a case was started. Since the supporting documentation provided with the invoice did not include the case start dates or the level of completion, 11 CONS had no choice but to rely on the CORs to access the DSS system and obtain dates. Part of the CORs duties included verifying rates were in accordance with the contract prior to certifying invoices. Whenever the CORs informed 11 CONS of problems, 11 CONS took action to resolve payment issues.

DSS asked 11 CONS personnel to report problem issues to the program managers. 11 CONS generated an "Outstanding Issues" document which was distributed on a regular basis to DSS program managers, CORs and 11 CONS contracting officers and contract specialists to ensure that the CORs knew the most current status of their contracts.

The commander of the 11<sup>th</sup> Contracting Squadron is Colonel Jeffery T. Beyer. He is an expert in contractual matters. Colonel Beyer has reviewed your recommendations and coordinated with our legal staff. We do not concur with the request for additional training for contracting officers or additional monitoring of contracting officer operations as specified in paragraphs B.2(a) and (b) of the draft report. DSS's actions were not unique in the actual performance; however, barriers limited the contracting support and oversight, which 11 CONS could provide. Barriers included limited access to information, controlled communication between CORs and 11 CONS, an inability to access DSS electronic files for processing invoices and the inability, resulting from security issues, to more closely monitor DSS processes. However, 11 CONS personnel participated and made sure that negotiations of orders were executed in as timely a manner as possible, sought performance progress from customer representatives on a regular basis, tracked expenditures on contract logs and periodically verified figures with DSS personnel. Contracting officers were quick to meet with affected parties whenever situations arose which needed further clarification and resolution.

# Defense Security Service Comments

Final Report  
Reference



DEFENSE SECURITY SERVICE  
1840 BRADDOCK PLACE  
ALEXANDRIA, VA 22314-1881

JUN 05 2003

## MEMORANDUM FOR DEPARTMENT OF DEFENSE INSPECTOR GENERAL, ACQUISITION MANAGEMENT DIRECTORATE

Subject: Report on Contracting Practices of the Defense Security Service for Personnel Security Investigations (Project No. D2002AD-0041.001)

Reference memorandum, April 25, 2003, subject as above, requesting management comments on subject report. The Defense Security Service (DSS) provides the following comments:

The Defense Security Service (DSS) appreciates the effort expended by the Department of Defense Office of Inspector General (DoDIG) to review the DSS personnel security investigation (PSI) contracting program as it existed between 1999 - 2002. Except as otherwise noted herein, DSS concurs in the facts, conclusions, and formal Findings of the DoDIG as set forth in its Draft Proposed Report, Contracting Practices of the Defense Security Service for Personnel Security Investigations, dated April 25, 2003, Project No. D2002AD-0041.001.

Through its own IG and its Office of General Counsel, DSS itself previously identified many of the issues noted by the DoDIG in the above referenced Draft Report. Steps to mitigate or correct many of the issues were taken or begun, a process that accelerated in and after June 2002. Specifically:

1. In the Fall of 2001, DSS conducted a survey of the local agency checks (LACs) and certain other investigative leads conducted by a contractor the quality and integrity of whose work had credibly come into question. As a result of this survey, DSS concluded that LACs as done and/or reported by the contractor were not reliable and the agency is engaged in an ongoing process of redoing all of the LACs in each report of investigation previously supplied by the contractor, except those investigations which had been cancelled (e.g., investigations for clearances no longer required because the subject had separated from the Department of Defense). This effort addresses, in part, concerns raised in Finding C of the Draft Proposed Report.

2. In the Fall of 2002, DSS initiated a survey of the quality of work performed under PSI contracts awarded between September 1999 and August 2000. This survey and the analysis of the information developed during it are not yet complete. However, it is the intent of DSS to use the information developed during the survey to assess whether a risk to national security exists from any defective work discovered and to take corrective action as necessary. This effort addresses, in part, concerns raised in Finding C of the Draft Proposed Report.



3. In July 2002, the PSI contracting program office was moved out of the Acquisition Division and into the PSI Directorate. Among other benefits, this move was intended to facilitate consistent application of national investigative standards and best practices in both the PSIs conducted by the contractors and those conducted by federally employed DSS Special Agents. This decision addresses, in part, concerns raised in Finding A, Recommendation A.2.c; Finding B, Recommendation B.1.b; and Finding C, Recommendations C.1 and C.2.

4. From the Summer of 2001 through the Winter of 2002, DSS hired additional trained and experienced personnel to oversee the acquisition side of the PSI contracting program and to ensure that the program was fully supported by acquisition professionals with knowledge and training in the applicable federal law and regulation. This included the on-going training in DAWIA certification of all personnel. This effort addresses, in part, Finding A, Recommendations A.2.a and A.2.b; Finding B, Recommendations B.1.a and B.1.b.

5. In the Fall/Winter of 2002, the Acting Director, DSS detailed a former Deputy Inspector General familiar with the contractual issues and challenges experienced in the PSI contracting program to oversee the program and the award of new PSI contracts as Acting Assistant Deputy Director for Augmentation (AADDA). The AADDA has a close working relationship with agency legal counsel and with the contracting office responsible for contract award and administration, the Naval Air Warfare Center (NAVAIR). The AADDA has encouraged and permitted direct contact and consultation between the CORs, other DSS program management staff members and the NAVAIR contracting officer, as well as with other advisory personnel such as attorneys in the DSS Office of General Counsel. This effort substantially directly or indirectly addresses concerns raised throughout Findings A – E and is responsive to Recommendations A.2.a, A.2.c, B.1.a, and B.1.b.

6. All personnel newly assigned to the PSI contracting program have attended or will attend contracting officer representative training. The DSS Office of General Counsel and NAVAIR worked together to develop an in-house training course intended to cover not only the norms of contract administration, but also lessons learned from past contracts. This training was conducted on May 28-29, 2003. This effort substantially directly or indirectly addresses concerns raised throughout Findings A – E and is responsive to Recommendations A.2.a, A.2.c, B.1.a, and B.1.b.

7. New PSI contracts solicited in late 2002 and awarded by NAVAIR on DSS' behalf in January 2003 contain specific requirements for an effective and comprehensive quality control program to be conducted by the contractors, with multiple levels or types of review required. This effort substantially directly or indirectly addresses concerns raised throughout Finding C and is responsive to Recommendations C.1 – C.2.

8. To administer the PSI contracts awarded in January 2003, DSS developed and has implemented a comprehensive, multi-tier quality assurance program, which includes an oversight team for each contract consisting of a designated contracting officer's

representative (COR), an agency employee assigned to the contractors processing center conducting reviews of completed cases and other employees tasked with, among other things, conducting real-time reviews of the contractors' processes and work product.

To date, DSS has had considerable success working cooperatively with the contractors to ensure a quality product sufficient to meet the requirements of the contracts and the needs of national security. We believe our processes will also help to ensure that contractors and their employees are aware of and adhere to the requirements of the Privacy Act of 1974, as amended, 5 U.S.C. 552a, in their handling of the covered material. This effort substantially directly or indirectly addresses concerns raised throughout Finding C and is responsive to Recommendations C.1 - C.5.

9. DSS has modified its Case Tracking System to more effectively reconcile PSI tasks to the contractors, contractor invoices, and other relevant data to ensure timely and proper payment for work completed under the contracts awarded in January 2003. DSS has or is in the process of implementing procedures to monitor delivery order status and payments made to its PSI contractors. DSS is working closely with NAVAIR to ensure that accepted delivery order, tasking, invoicing, and payment procedures are used by both the government and the contractors. This effort substantially directly or indirectly addresses concerns raised throughout Finding D and is responsive to Recommendation D.

10. During the Fall and Winter of 2002, DSS PSI contracting program staff attempted to reconcile contractor invoices and task orders on United States Air Force contract number F49642-99-D-5002. DSS subsequently sought and obtained the cooperation of the contracting officer at the 11<sup>th</sup> Contracting Squadron in facilitating a reconciliation audit of this contract. The Defense Contract Management Agency (DCMA) has agreed to conduct the reconciliation audit on the contract. It is anticipated that DCMA will be able to complete this audit in a timely fashion, facilitating the identification of delivery order and tasking errors, overpayments, incomplete payments, and other errors that may have occurred during the course of DSS' administration of this contract. This effort substantially directly or indirectly addresses concerns raised throughout Finding D and is responsive to Recommendation D.

11. DSS concurs that it did not adequately control, account for, or require contractors to account for credentials under contracts awarded between September 1999 and August 2000. As noted by the DuDHC, one area in which controls were lacking under these PSI contracts was government verification of the status of contractor issued credentials. In April 2003, the AADDA and his staff began contacting investigators who worked on these contracts directly to verify the status of credentials issued to them where those credentials had previously been identified by a contractor as lost or destroyed. The process of collecting credentials issued under these contracts in order to return them to contract investigators nominated to work on the January 2003 PSI contracts provided DSS with an additional opportunity to account for those credentials which are the principal subject of Finding E. As a result of these two efforts, DSS has made significant progress toward accounting for previously unaccounted for credentials and will pursue this issue until all remaining for credentials or blank credentials are accounted for to the

been of our ability. This effort substantially directly or indirectly addresses concerns raised throughout Finding E and is responsive to Recommendations E.1 and E.2.

12. For purposes of the new PSI contract awarded in January 2003, DSS has implemented detailed procedures to issue credentials to contract investigators. These procedures accord with the agency's Badge and Credential Regulation 03-6 and the terms of the contract regarding investigator qualifications and certain administrative processes. This effort directly addresses concerns raised throughout Finding E and is responsive to Recommendations E.1 - E.3.

13. Because many of the process improvements were in place or were anticipated to be in place shortly, DSS did not identify its PSI contracting program as a material weakness in its Annual Statement of Assurance dated November 1, 2002. However, having read the Draft Proposed Report, DSS appreciates the position of the DoDIG; however, the contract processes had already completed and actions had been taken to ensure the new planned contracts encompassed the new and improved procedures to prevent recurrence of previous problems. Given the number of "fixes" that DSS had undertaken or had begun to undertake, we do not believe our decision was unreasonable. DSS nonetheless will not dispute Finding A of the Draft Proposed Report. This effort directly addresses concerns raised throughout Finding A and is responsive to Recommendation A.2.b.

The Acquisition Division, under the leadership of a new, highly qualified Acquisition Manager hired in December 2002, has undertaken the development of a viable DSS Contracting Officer's Representative (COR) Program that will include the PSI as well as other agency contracts. The Division has identified agency personnel who have been assigned COR duties, pertinent qualifications, and COR training accomplishments and will follow-up to ensure that individuals complete the required training and have been appropriately appointed. An agency directive and COR Handbook have been drafted and are in coordination. The Division is also working with the respective servicing contract agencies to ensure that individuals who will be designated as CORs are appropriately qualified and trained. The Division will maintain a COR database that identifies appointed individuals, assigned contracts, and training.

We note that Recommendations A.1, B.2 in the Draft Proposed Report were not directed to the Director, DSS, or another official of this agency. For this reason, DSS has not addressed these Recommendations in this response.

  
WILLIAM A. CURTIS  
Acting Director

## Team Members

The Acquisition Management Directorate, Office of the Deputy Inspector General for Auditing of the Department of Defense prepared this report. Personnel of the Office of the Inspector General of the Department of Defense who contributed to the report are listed below.

(b) (6)

