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October 30, 2002



Acquisition

A Revised Acquisition Program
Baseline and Threat Assessment
for the Chemical Demilitarization
Program
(D-2003-015)

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

October 30, 2002

MEMORANDUM FOR UNDER SECRETARY OF DEFENSE FOR ACQUISITION,
TECHNOLOGY, AND LOGISTICS
AUDITOR GENERAL, DEPARTMENT OF THE ARMY

SUBJECT: Report on a Revised Acquisition Program Baseline and Threat Assessment
for the Chemical Demilitarization Program (Report No. D-2003-015)

We are providing this report for review and comment. This report is the first in a series of reports that will discuss the acquisition of the Chemical Demilitarization Program. We considered management comments on a draft when preparing this final report.

DoD Directive 7650.3 requires that all recommendations be resolved promptly. Management comments were not fully responsive on Recommendations B.2.c and B.3. We request that the Assistant Secretary of the Army (Installation and Environment) provide additional comments on Recommendation B.3 and that the Army Deputy Chief of Staff, G-2, provide comments on Recommendation B.2.c by December 20, 2002.

If possible, please provide management comments in electronic format (Adobe Acrobat file only). Send electronic transmission to the e-mail addresses cited in the last paragraph of this memorandum. 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) (DSN 664-(b) (6) (b) (6)) or (b) (6) at (703) 604-(b) (6) (DSN 664-(b) (6) (b) (6)). See Appendix D for the report distribution. The team members are listed inside the 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-2003-015

(Project No. D2002AE-0081)

October 30, 2002

A Revised Acquisition Program Baseline and Threat Assessment for the Chemical Demilitarization Program

Executive Summary

Who Should Read This Report and Why? This report should be read by all who are interested in the Army's demilitarization of its chemical munitions stockpile. This report discusses why the Army needs to update its acquisition program baseline agreement and to obtain a documented threat assessment.

Background. This report is the first in a series of reports that discuss the acquisition of the Chemical Demilitarization Program (the Demilitarization Program). The mission of the Demilitarization Program is to destroy chemical munitions through incineration or other approved alternative technologies. In 1985, the Congress, in section 1521, title 50, United States Code, "Destruction of Existing Stockpile of Lethal Chemical Agents and Munitions," (Public Law 99-145), directed DoD to oversee the destruction of the stockpile of lethal chemical agents and munitions because of concerns for the stockpile deterioration. The Army established the Program Manager for Chemical Demilitarization to manage the day-to-day operations of destroying the chemical weapons. In May 2001, the Under Secretary of Defense for Acquisition, Technology, and Logistics designated the Demilitarization Program as a major Defense acquisition program (Acquisition Category ID) and assigned the Army as the Executive Agent. Through July 2002, the U.S. Army Corps of Engineers awarded contracts for construction, systemization, operations, and closure of chemical destruction facilities at Johnston Atoll Chemical Agent Disposal System, Johnston Island, Hawaii, and Tooele Chemical Agent Disposal Facility, Tooele, Utah. The Office of the Secretary of Defense approved a cost estimate totaling \$24 billion, of which the program office awarded \$5.8 billion in contracts for the Demilitarization Program.

Results. The Program Manager for the Chemical Demilitarization Program (program manager) submitted a revised acquisition program baseline document and improved security measures at the chemical destruction sites to recognize the increased threat. However, the Under Secretary of Defense for Acquisition, Technology, and Logistics needs to approve the acquisition program baseline that the program manager submitted, and the Deputy Chief of Staff, G-2, Army, needs to fully define the threat environment affecting the destruction sites in a threat assessment. Specifically, the following areas require additional management attention:

- The program manager did not have an approved revised acquisition program baseline agreement that should have resulted from his reporting a significant breach in the program's cost and schedule to the Under Secretary of Defense for Acquisition, Technology, and Logistics. A revised acquisition program baseline agreement needs to be approved so that the Under Secretary can use the baseline

concept to measure program manager performance in managing future program cost and schedule growth (finding A).

- The program manager did not request the Office of the Deputy Chief of Staff, G-2 to prepare a chemical demilitarization threat assessment report for validation by the Defense Intelligence Agency. The program manager needs fully defined threat information to establish effective security plans with site security managers to prevent and deter terrorist attacks on the chemical destruction facilities and to emphasize potential threats from hostile groups to State authorities that are responsible for issuing destruction site permits (finding B).

Management Comments. The Special Assistant for Chemical Stockpile Matters, Office of the Assistant to the Secretary of Defense for Nuclear and Chemical and Biological Defense concurred with the need to expedite the approval of a revised acquisition program baseline for the Demilitarization Program. The Acting Deputy Assistant Secretary of the Army (Chemical Demilitarization), Office of the Assistant Secretary of the Army (Installation and Environment) stated that a revised acquisition program baseline agreement had been submitted for approval. The Acting Deputy Assistant also concurred with the recommendation to obtain a waiver for a system threat assessment but nonconcurred with the recommendation that the Army Counter Intelligence Center threat assessment report be updated to fully address threat requirements at all chemical destruction sites and to coordinate the updated threat information with site security managers and state authorities. The Deputy Chief of Staff, G-2 agreed to update and modify the Center threat assessment report to fully address threat requirements at all chemical destruction sites. However, the Deputy Chief of Staff, G-2 did not state whether the document would be validated by the Defense Intelligence Agency. We request that the Acting Deputy Assistant Secretary of the Army (Chemical Demilitarization) and Deputy Chief of Staff, G-2 provide additional comments on the final report by December 20, 2002. (See the Finding section of this report for a discussion of the management comments and the Management Comments section of the report for the complete text of the comments.)

Table of Contents

Executive Summary	i
Background	1
Objectives	2
Findings	
A. Establishing a Revised Acquisition Program Baseline Agreement	3
B. Providing a Threat Assessment for the Demilitarization Program	8
Appendixes	
A. Scope and Methodology	13
B. Prior Audit Coverage	14
C. Management Roles Within the Chemical Demilitarization Program	16
D. Response to the Comments of the Assistant Secretary of the Army (Installation and Environment) Concerning the Report	18
E. Report Distribution	20
Management Comments	
Assistant to the Secretary of Defense for Nuclear and Chemical and Biological Defense Programs	23
Assistant Secretary of the Army (Installation and Environment)	24
Army Deputy Chief of Staff, G-2	28

Background

This report is the first in a series of reports that will discuss the acquisition of the Chemical Demilitarization Program (the Demilitarization Program). This report discusses the need for the Army to update its acquisition program baseline agreement and to obtain a documented threat assessment. The Demilitarization Program is an acquisition program with the objective of destroying chemical munitions through incineration or other approved alternative technologies. The Demilitarization Program consists of two individual programs, the Chemical Stockpile Disposal Program and the Non-Stockpile Chemical Materiel Program. The Chemical Stockpile Disposal Program is further structured into four programs, a program to destroy the U.S. stockpile of unitary chemical agents and munitions at five disposal sites; an Alternative Technologies and Approaches Program at two disposal sites; an Assembled Chemical Weapons Assessment Program; and the Chemical Stockpile Emergency Preparedness Program. The mission of the Non-Stockpile Chemical Materiel Program is to destroy all binary chemical munitions, former chemical weapon production facilities, recovered chemical warfare materiel, and miscellaneous warfare materiel. Appendix C describes in more detail the functions of the above programs in the chemical demilitarization process.

In 1985, the Congress, in section 1521, title 50, United States Code, “Destruction of Existing Stockpile of Lethal Chemical Agents and Munitions,” (Public Law 99-145), directed DoD to oversee the destruction of the stockpile of lethal chemical agents and munitions because of concerns for the stockpile’s deterioration. The Congress designated the Army as the Service responsible for the destruction of the stockpile. The Army established the position of Program Manager for Chemical Demilitarization to manage the day-to-day operations of destroying the chemical weapons.

In May 2001, the Under Secretary of Defense for Acquisition, Technology, and Logistics designated the Demilitarization Program as a major Defense acquisition program (Acquisition Category ID), with the Army as the Executive Agent. The Deputy Assistant to the Secretary of Defense for Chemical and Biological Defense oversees the program for the Under Secretary of Defense for Acquisition, Technology, and Logistics. The Assistant Secretary of the Army (Installations and Environment) is responsible for policy and oversight of the planning, programming, and budgeting. Funding for the Demilitarization Program is budgeted through the Chemical Agents and Munitions Destruction, Army Account.

Through July 2002, the U.S. Army Corps of Engineers awarded contracts for construction, systemization, operations, and closure of chemical destruction facilities at Johnston Atoll Chemical Agent Disposal System, Johnston Island, Hawaii, and Tooele Chemical Agent Disposal Facility, Tooele, Utah. The Army Operations Support Command, Rock Island, Illinois, awarded five other construction contracts, including cost-plus-award-fee contract modifications, for the systemization and operations and closure of the facilities. The Operations

Support Command also awarded contracts for the various other chemical disposal programs and the non-stockpile programs. As of July 2002, the total estimated costs for contracts awarded amounted to \$5.8 billion.

In September 2001, the Under Secretary of Defense for Acquisition, Technology, and Logistics approved a cost estimate prepared by the Cost Analysis Improvement Group in the Office of the Secretary of Defense, which increased the total estimated program cost to \$24 billion. The revised cost estimate placed the Demilitarization Program in breach of the acquisition program baseline agreement. In May 2002, the Under Secretary of Defense certified to Congress, pursuant to section 2433, title 10, United States Code, "Unit Cost Reports," (Public Law 99-500), that the Demilitarization Program was essential to national security; that no alternatives existed for the program; that new cost estimates were reasonable; and that management was adequate to control costs.

Objectives

The primary objective was to evaluate the overall management of the Demilitarization Program and associated management controls. Specifically, we evaluated the program manager's need to obtain approval for a revised acquisition program baseline agreement and obtain a threat assessment report. Appendix A discusses the scope and methodology of the review. Appendix B identifies prior audit coverage of the Demilitarization Program. The review of the management control program will be discussed in a later report.

A. Establishing a Revised Acquisition Program Baseline Agreement

The program manager for the Chemical Demilitarization Program (the program manager) did not have an approved revised acquisition program baseline agreement which should have resulted from the September 2001 reporting of a significant breach in the program's cost and schedule to the Under Secretary of Defense for Acquisition, Logistics, and Technology (the Under Secretary for Acquisition). The Under Secretary for Acquisition did not approve a revised acquisition program baseline because he understood that the Under Secretary of Defense (Comptroller) and the Chairman of the Cost Analysis Improvement Group believed that a revised baseline agreement should not be approved until after the program manager completed plans to accelerate chemical stockpile destruction. As a result, until a revised acquisition baseline agreement is approved, the Under Secretary for Acquisition cannot use the baseline concept to measure program manager performance in managing future program cost and schedule growth.

Acquisition Policy for Baseline Agreements

Background. In June 1986, the President's Blue Ribbon Commission on Defense Management (the Packard Commission) reported that impressive savings could be achieved by eliminating hidden costs that program instability brings. The Packard Commission reported that hidden costs could be minimized, and the stability of DoD acquisition programs enhanced by various means, including establishing program baselines for major Defense acquisition programs. On October 18, 1986, to enhance program stability, Congress enacted the Packard Commission's recommendations into section 2435, title 10, United States Code, "Baseline Description," (Public Law 99-500).

Baseline agreements represent a contract between program managers for major Defense acquisition programs and acquisition executives to execute the programs within certain key parameters. Baseline descriptions include key parameters on performance, cost, schedule, and other factors that are critical to a program's success. The Defense Acquisition Executive approves baseline agreements for programs managed by the Defense Acquisition Board. Under the baseline concept, program managers are authorized to manage their programs as long as they do not breach a performance, cost, or schedule baseline parameter. According to the Packard Commission, this arrangement enhances program stability.

DoD Regulation 5000.2-R, "Mandatory Procedures for Major Defense Acquisition Programs (MDAPs) and Major Automated Information System Acquisition Programs (MAIS)," April 2002, establishes DoD policies and procedures for implementing baseline agreements for major Defense acquisition programs that are in the development or production phases of the acquisition

process. Further, the Regulation assigns responsibility for preparing, submitting, and changing baselines; reporting program performance against the baseline; and notifying the Defense Acquisition Executive of potential breaches of the baseline agreement.

Reporting a Deviation. DoD Regulation 5000.2-R states that a program deviation occurs when a program manager has reason to believe that the current estimate for the program indicates that a performance, schedule, or cost threshold value will not be achieved. The Regulation requires the program manager to immediately notify the milestone decision authority when a deviation occurs. The Regulation further states that after the program deviation occurs, one of the following will occur: the program manager must bring the program back to within acquisition program baseline parameters; the program manager must obtain approval of a new acquisition program baseline agreement from the Defense Acquisition Executive; or an overarching integrated product team must conduct a review of the program manager's proposed acquisition program baseline revisions and make recommendations to the milestone decision authority.

Revising an Acquisition Program Baseline. DoD Regulation 5000.2-R requires the program manager, in coordination with the user, to revise the acquisition program baseline agreement subsequent to milestone reviews, program restructurings, or unrecoverable program deviations. The Regulation further states that the milestone decision authority will retain approval authority, but shall not approve the revised acquisition program baseline agreement without coordination with the Under Secretary of Defense (Comptroller).

Proposed Revision of the Acquisition Program Baseline

The program manager did not have an approved revised acquisition program baseline agreement that should have resulted from his reporting a significant breach in the program's cost and schedule to the Under Secretary for Acquisition. In September 2001, the Under Secretary for Acquisition held a program review where the program manager reported that the Demilitarization Program's cost and schedule had deviated and breached the approved acquisition program baseline. The program manager presented a revised program schedule and revised the program cost estimate from \$13.8 billion to \$24 billion based on a life-cycle cost estimate developed by the Cost Analysis Improvement Group. After the program review, the Under Secretary for Acquisition issued an acquisition decision memorandum that approved the revised program schedule and cost. As a result, according to the program manager, in November 2001, he revised and submitted a draft acquisition program baseline agreement to the Under Secretary for Acquisition for approval. As of July 2002, the Under Secretary for Acquisition had not approved the revised acquisition program baseline agreement.

Delay in Approving the Revised Acquisition Program Baseline

The Under Secretary for Acquisition did not approve the revised acquisition program baseline because he understood that the Under Secretary of Defense (Comptroller) and the Chairman of the Cost Analysis Improvement Group believed that a revised baseline agreement should not be approved until the program manager completed plans to accelerate chemical stockpile destruction.

Because of the terrorist attack on the United States in September 2001, the DoD reassessed the potential risk that the remaining chemical stockpile, which was stored at the eight¹ depot sites, had on the U.S. population. As a result, the Army directed the program manager to determine what could be accomplished to reduce the risk associated with having a stockpile if an attack on the depot sites occurred. In December 2001, the program manager responded by developing a plan to accelerate the destruction of the bulk chemical stockpile (23 percent of the remaining stockpile) located at Aberdeen, Maryland; Newport, Indiana; and Pine Bluff, Arkansas.² The Under Secretary for Acquisition approved an acquisition decision memorandum in February 2002 to accelerate destruction of bulk chemical agent at the Aberdeen, Maryland, chemical destruction site and, in May 2002, to accelerate chemical destruction at the Newport, Indiana, chemical destruction site. As of July 2002, the program manager estimated that the acceleration plans for the remaining sites under consideration would not be completed until the fall of 2002.

In May 2002, representatives from the Under Secretary of Defense (Comptroller) and the Chairman of the Cost Analysis Improvement Group agreed that a revised acquisition program baseline should be established for the Demilitarization Program.

- A representative from the Office of the Under Secretary of Defense (Comptroller) stated that the Under Secretary for Acquisition's staff may have misinterpreted comments made during a March 2002 meeting of the overarching integrated process team concerning the Demilitarization Program. The representative stated that his office had never objected to the Under Secretary for Acquisition establishing a revised acquisition program baseline agreement with the program manager.
- Representatives from the Cost Analysis Improvement Group stated that the initial advice to the Under Secretary for Acquisition not to sign the revised baseline agreement was because the program manager needed to make additional revisions to the acquisition program baseline after he had fully defined the acceleration program. Although the representatives from

¹According to the Army, the stockpiles of chemical munitions and agents remain at eight of the nine storage sites after total destruction of the stockpile at Johnston Atoll Chemical Agent Disposal Site, Johnston Island, Hawaii, in November 2000.

²According to the Army, as of July 2002, 25 percent of the total stockpile has been destroyed. Of the remaining 75 percent, 23 percent represents bulk chemical agents that the Army targets for accelerated destruction and 77 percent will be destroyed under the planned destruction schedule.

the Cost Analysis Improvement Group initially recommended deferral of the acquisition program baseline approval, they agreed that a revised baseline should be prepared regardless of when the accelerated program becomes better defined.

Measuring Program Performance

Until a revised acquisition baseline agreement is approved, the Under Secretary for Acquisition cannot use the baseline concept to measure program manager performance in managing future cost and schedule growth. Based on the program manager's estimate, the earliest that the Under Secretary for Acquisition would approve a revised baseline if he waits until plans to accelerate the chemical stockpile destruction are completed is after the program manager submits the FY 2004 program objective memorandum and the FY 2004 budget estimate submission in October 2003. When the program manager submits the budget estimate submission for FY 2004, the request will reflect the revised program cost estimate. According to the program manager, if the accelerated program is successful, future funding requirements in the out years will be reduced through the future planning, programming, and budgeting process for those sites that accelerate. Without an approved acquisition program baseline, the Under Secretary for Acquisition does not have a basis for measuring program manager performance and for reporting future breaches of program cost and schedule performance.

Reporting Breaches to the Acquisition Program Baseline

As a result of the deviation from the original baseline, under section 2433, title 10, United States Code, "Unit Cost Reports," the Under Secretary for Acquisition had to certify to Congress in May 2002 that the revised chemical destruction program included a management structure that was adequate to control acquisition program costs.

Management Comments on the Finding and Audit Response

A summary of management comments on the finding and audit response is in Appendix D.

Recommendation and Management Comments

A. We recommend that the Under Secretary of Defense for Acquisition, Technology, and Logistics expedite approval of the revised acquisition program baseline for the Chemical Demilitarization Program.

Under Secretary of Defense for Acquisition, Technology, and Logistics Comments. The Special Assistant for Chemical Stockpile Matters, Office of the Assistant to the Secretary of Defense for Nuclear and Chemical and Biological Defense Programs concurred with the recommendation for the Under Secretary of Defense for Acquisition, Technology, and Logistics.

Assistant Secretary of the Army (Installation and Environment) Comments. The Acting Deputy Assistant Secretary of the Army (Chemical Demilitarization), Office of the Assistant Secretary of the Army (Installation and Environment) stated that the acquisition program baseline had been revised and submitted to the Under Secretary of Defense for Acquisition, Technology, and Logistics for approval.

B. Providing a Threat Assessment for the Demilitarization Program

The program manager did not request that the Office of the Deputy Chief of Staff, G-2 prepare a chemical demilitarization threat assessment report for validation by the Defense Intelligence Agency. This condition occurred because the program manager and the Deputy Chief of Staff, G-2 believed that the Demilitarization Program did not require a validated threat assessment report because the congressionally mandated program was not initiated to counter a preexisting threat. As a result, the program manager does not have threat information needed to establish fully effective security plans with depot site security managers to prevent and deter terrorist attacks on the chemical destruction facilities. In addition, without complete threat information, the program manager may not be able to emphasize potential threats from hostile groups to State authorities that are responsible for issuing destruction site permits.

Threat Assessment Report Policy

DoD Policy. DoD Regulation 5000.2-R requires DoD Components to prepare a system threat assessment at program initiation and to keep the assessment current and validated throughout the acquisition process. For major Defense acquisition programs, the assessment must be system- or program-specific to the degree of definition available at the time of the assessment. The system threat assessment must include:

- an executive summary that includes the key intelligence judgments and significant changes in the threat environment;
- a system description;
- a discussion of the operational threat environment and reactive threat; and
- critical intelligence categories.

Further, DoD Regulation 5000.2-R requires that the Defense Intelligence Agency review and validate system threat assessments for major Defense acquisition programs before all milestone decision points, subject to Defense Acquisition Board review.

Army Policy. Army Regulation 381-11, "Production Requirements and Threat Intelligence Support to the U.S. Army," June 28, 2000, requires the Office of the Deputy Chief of Staff, G-2 to submit system threat assessment reports prepared for major Defense acquisition programs to the Defense Intelligence Agency for validation. The reports provide an assessment of the capabilities of potential adversaries to neutralize or degrade a specific U.S. system, or system concept,

and are used to prepare the operational requirements document, the analysis of alternatives, the test and evaluation master plan, and the integrated program summary.

Additionally, Army Regulation 381-11 requires the combat developer to submit a request to waive the system threat assessment when a major Defense acquisition program is not affected by a threat. Regulation 381-11 requires the Assistant Secretary of the Army (Acquisition, Logistics, and Technology), as the Army Acquisition Executive, to submit waiver requests for the Defense Acquisition Board's oversight programs to the Under Secretary of Defense for Acquisition.

Applicability to the Demilitarization Program. Because the Demilitarization Program is managed through the acquisition process, the program should comply with the acquisition policies set forth in DoD Regulation 5000.2-R and Army Regulation 381-11 to assess, document, and validate the program's threat environment. The terrorist attacks on September 11, 2001, increased the threat of additional attacks that could affect the Demilitarization Program. Consequently, the terrorist threat environment to the Demilitarization Program should be addressed in a threat assessment document.

Requesting a Threat Assessment Report

The program manager did not request that the Office of the Deputy Chief of Staff, G-2 prepare a chemical demilitarization threat assessment report for validation by the Defense Intelligence Agency. Instead, the Army Materiel Command directed the Army Counter Intelligence Center to prepare the "Army Counter Intelligence Center Special Report: The Foreign Terrorist Threat to Army Materiel Command Chemical and Biological Sites," October 12, 2001, to document the vulnerabilities of terrorist attacks for all chemical and biological sites. Although the Army Counter Intelligence Center report defined the scope of the terrorist threat to components of the chemical demilitarization operations, such as the chemical agent storage facilities and chemical destruction facilities, the assessment did not specifically address the Demilitarization Program and was not reviewed and validated by the Defense Intelligence Agency.

Adherence to Criteria for Preparing a Threat Assessment Report

The program manager and the Deputy Chief of Staff, G-2 did not believe that the program required a validated threat assessment report because the congressionally mandated program was not initiated to counter a preexisting threat. However, the program manager did not submit a waiver request to the Under Secretary of Defense for Acquisition as required.

In acknowledgement of the DoD Regulation 5000.2-R requirement for a threat assessment report, officials in the Office of the Deputy Chief of Staff, G-2

proposed that they review the Army Counter Intelligence Center report to determine the extent that it addressed the Demilitarization Program. They stated that they would modify the document, as needed, to fully address all aspects of the Demilitarization Program. Further, they stated that they would request the Joint Intelligence Task Force for Counter Terrorism, Defense Intelligence Agency and the Army Counter Intelligence Center to review and concur with the report as revised. The officials also stated that a waiver request for a system threat assessment report would be prepared for approval of the Under Secretary for Acquisition. If the Office of the Deputy Chief of Staff, G-2 takes the proposed actions, the requirement for a threat assessment would be met.

Benefits of Documenting and Validating Threat Assessments

A validated threat assessment report that specifically addresses the Demilitarization Program would:

- provide the program manager with threat information needed to establish effective site security plans; and
- enable the program manager to emphasize potential threats from hostile groups to State authorities that are responsible for issuing environmental permits.

Site Security Planning. Without a validated threat assessment report from the Defense Intelligence Agency, the program manager does not have the information he needs to establish fully effective security plans with the site security managers to prevent and deter terrorist attacks on the chemical destruction facilities. Depot security increased after the September 11, 2001, terrorist attacks, but some security issues still need to be addressed. For example, the site security plan for one destruction facility included monitoring a restricted fly zone over the chemical storage area and chemical destruction facility; however, specific responsibility for aggressive enforcement of an unidentified aircraft violating that zone had not been established.

Environmental Permits. Several chemical demilitarization sites experienced delays in obtaining environmental permits from State authorities because of the States' concerns with the environmental impact of certain chemical destruction technologies. Without a validated threat assessment report, the program manager could not fully emphasize potential vulnerabilities of the chemical storage sites and chemical destruction facilities from hostile groups to State authorities that are responsible for issuing environmental permits. With a validated threat assessment, State authorities could be made aware of the increased threat in prolonging the storage of the chemical stockpile and may be more willing to expedite the environmental permit and permit modification approval processes.

Management Comments on the Finding and Audit Response

A summary of management comments on the finding and audit response is in Appendix D.

Recommendations, Management Comments, and Audit Response

Revised Recommendation. Based on management comments, we revised the title of the Deputy Chief of Staff for Intelligence to the Deputy Chief of Staff, G-2 in Recommendation B.2.

B. We recommend that the Program Manager for the Chemical Demilitarization Program:

1. Submit a request for approval to the Under Secretary of Defense for Acquisition, Technology, and Logistics to waive the requirement for a traditional system threat assessment for the Chemical Demilitarization Program.

Assistant Secretary of the Army (Installation and Environment) Comments. The Acting Deputy Assistant Secretary of the Army (Chemical Demilitarization), Office of the Assistant Secretary of the Army (Installation and Environment), responding for the Program Manager for the Chemical Demilitarization Program, concurred, stating that the Program Manager will submit a request to the Under Secretary of Defense for Acquisition, Technology, and Logistics to exempt the requirement for a traditional system threat assessment for the Chemical Demilitarization Program.

2. Request that the Office of the Deputy Chief of Staff, G-2:

a. Review the threat assessment report, “Army Counter Intelligence Center Special Report: The Foreign Terrorist Threat to Army Materiel Command Chemical and Biological Sites,” October 12, 2001, for applicability to the Chemical Demilitarization Program.

b. Modify the Army Counter Intelligence Center threat assessment report by preparing an annex to the threat assessment report that will fully address threat requirements at all chemical destruction sites for the Chemical Demilitarization Program.

c. Submit the modified threat assessment report to the Defense Intelligence Agency for validation.

Assistant Secretary of the Army (Installation and Environment) Comments. The Acting Deputy Assistant Secretary of the Army (Chemical Demilitarization), responding for the Program Manager for the Chemical Demilitarization Program,

nonconcurrent with the need for a weapon system threat assessment, stating that the program manager complied with requirements in Army Regulation 190-13, "The Army Physical Security Program," September 1993. The Regulation requires that host commanders of installations participating in the stockpile disposal program conduct threat assessments. He stated that the program manager, as a tenant on the installation, participated in conducting threat assessments and annual reviews. Further, the Acting Deputy stated that when the Chemical Demilitarization Program was established as an acquisition category I program, there was no validated threat for the program.

Deputy Chief of Staff, G-2 Comments. Although not required to respond to the recommendation, the Deputy Chief of Staff, G2 stated that the subject threat assessment report was being updated and modified as recommended. He said the resultant report, "Assessment of the Risks of Storage of Chemical Weapons (S)," was released for final draft coordination in March 2002.

Audit Response. Although the Acting Deputy's comments were nonresponsive, the Deputy Chief of Staff, G-2's comments were responsive to Recommendations B.2.a. and B.2.b. The Deputy Chief of Staff, G-2's comments were silent concerning Recommendation B.2.c. In response to the final report, we request that the Deputy Chief of Staff, G-2 provide additional comments concerning whether the report, "Assessment of the Risks of Storage of Chemical Weapons (S)," was submitted to the Defense Intelligence Agency for validation.

3. Use the validated threat assessment report to:

a. Coordinate with the site security managers to establish effective security plans to prevent and deter terrorist attacks on the chemical destruction facilities.

b. Emphasize the risk of terrorist threats to State authorities so that they will expedite the issuance of environmental permits and permit modifications for destruction sites.

Assistant Secretary of the Army (Installation and Environment) Comments. The Acting Deputy Assistant Secretary of the Army (Chemical Demilitarization), responding for the Program Manager for the Chemical Demilitarization Program, nonconcurrent with the recommendation because the program manager, as a tenant on the installation, participated in conducting threat assessments and annual reviews in accordance with Army Regulation 190-13.

Audit Response. The comments of the Acting Deputy Assistant Secretary of the Army (Chemical Demilitarization) were nonresponsive. We request that the Acting Deputy Assistant Secretary provide additional comments in response to the final report in view of the availability of the report, "Assessment of the Risks of Storage of Chemical Weapons (S)," and the need to keep site security managers and State authorities informed of any risks concerning terrorist threats that are identified in the report.

Appendix A. Scope and Methodology

In this first report addressing the Chemical Demilitarization Program, we evaluated whether management was effectively adhering to acquisition requirements for obtaining a threat assessment and preparing a revised acquisition program baseline agreement when needed. Consequently, we focused our review on the areas of requirements, threat assessments, and program assessments.

To evaluate whether the Office of the Secretary of Defense and the Army were effectively managing the Chemical Demilitarization Program, we examined Public Laws 99-145 and 99-500; DoD Regulation 5000.2-R and Army Regulation 381-11; the draft acquisition program baseline agreement for chemical demilitarization and the Under Secretary of Defense for Acquisition, Technology, and Logistics' program certification letter to Congress; and the Army Counter Intelligence Center threat assessment report.

We reviewed documentation dated from August 1994 through May 2002 at the Chemical Demilitarization Program Office, Aberdeen, Maryland; Chemical Disposal Site, Tooele, Utah; Chemical Disposal Site, Anniston, Alabama; and the U.S. Army Operations Support Command, Rock Island, Illinois.

We performed this audit from February 2002 through July 2002 in accordance with generally accepted government auditing standards. We will report the results of the management control review in a future report on the adequacy of acquisition management of the Chemical Demilitarization Program.

Use of Computer-Processed Data. We did not use computer-processed data to perform this audit.

General Accounting Office High-Risk Area. The General Accounting Office has identified several high-risk areas in the DoD. This report provides coverage of the DoD Weapons Systems Acquisition high-risk area.

Appendix B. Prior Audit Coverage

During the last 5 years, the General Accounting Office (GAO) the Inspector General of the Department of Defense (IG DoD), and the Army Audit Agency, have issued eighteen reports related to the Demilitarization Program. Unrestricted GAO reports can be accessed over the Internet at <http://www.gao.gov/>. Unrestricted IG DoD reports and Army Audit Agency reports can be accessed at <http://dodig.osd.mil/audit/reports> and <http://aaa.army.mil/reports>, respectively.

General Accounting Office

GAO Report No. 01-850, "Chemical Weapons: FEMA and Army Must Be Proactive in Preparing States for Emergencies," August 13, 2001

GAO Report No. NSIAD 00-80, "Chemical Weapons Disposal: Improvements Needed in Program Accountability and Financial Management," May 8, 2000

GAO Report No. NSIAD 97-91, "Chemical Weapons Stockpile: Changes Needed in the Management of the Emergency Preparedness Program," June 11, 1997

GAO Report No. NSIAD 97-18, "Chemical Weapons and Materiel: Key Factors Affecting Disposal Costs and Schedule," February 10, 1997

Inspector General of the Department of Defense (IG DoD)

IG DoD Report No. 99-136, "Government-Furnished Equipment Year 2000 Issues for Army Chemical Demilitarization," April 16, 1999

IG DoD Report No. 99-081, "Tooele Chemical Agent Disposal Facility Preparation for Year 2000," February 9, 1999

IG DoD Report No. 99-060, "Johnston Atoll Chemical Agent Disposal System Preparation for Year 2000," December 24, 1998

IG DoD Report No 98-051, "Chemical Event at Tooele Chemical Agent Disposal Facility," January 20, 1998

Army Audit Agency

Army Audit Agency Report No. 01-131, "Financial Management of the Chemical Demilitarization Program," January 4, 2001

Army Audit Agency Report No. 01-001, "Matrix Support Requirements for the Chemical Demilitarization Program," October 2, 2000

Army Audit Agency Report No. 00-346, "Engineering Change Process for the Chemical Stockpile Disposal Project; Aberdeen Proving Ground, Maryland," August 14, 2000

Army Audit Agency Report No. 00-205, "Military Interdepartmental Purchase Requests; Program Manager for Chemical Demilitarization," March 27, 2000

Army Audit Agency Report No. 99-221, "Chemical Stockpile Emergency Preparedness Program; Aberdeen Proving Ground, Maryland," April 16, 1999

Army Audit Agency Report No. 99-155, "Chemical Agent Inventory Controls; Aberdeen Proving Ground, Maryland," February 17, 1999

Army Audit Agency Report No. 99-97, "Recycling Contaminated Metal; Rock Island Arsenal, Rock Island, Illinois," December 31, 1998

Army Audit Agency Report No. 99-26, "Lessons Learned - Chemical Stockpile Disposal Project; Aberdeen Proving Ground, Maryland," November 9, 1998

Army Audit Agency Report No. 97-190, "Non-Stockpile Chemical Material Project; Aberdeen Proving Ground, Maryland," May 12, 1997

Army Audit Agency Report No. 97-42, "Johnston Atoll Chemical Agent Disposal System," November 21, 1996

Appendix C. Management Roles Within the Chemical Demilitarization Program

This section describes each component of the management structure that the DoD established to support the Assistant Secretary of the Army for Installations and Environment in completing the mission of the Chemical Demilitarization Program to destroy all chemical warfare-related materiel while ensuring maximum protection of the public, personnel involved in the destruction effort, and the environment.

Program Manager for Chemical Demilitarization. Public Law 99-145 designates the Army as the lead agent for the complete destruction of the chemical weapons stockpile and related non-stockpile materiel. As a result, the Army designated the Program Manager for Chemical Demilitarization as the principal manager who is responsible for preparing and updating the overall planning and budgeting details necessary to execute the operation of destroying the chemical weapons.

Project Manager for Chemical Stockpile Disposal. The Project Manager for Chemical Stockpile Disposal is the component of the Chemical Demilitarization Program that is responsible for destroying the stockpiles of unitary munitions with chemical agents at five on-site locations. The Project Manager for Chemical Stockpile Disposal reports to the Program Manager for Chemical Demilitarization.

Project Manager for Alternative Technologies and Approaches. The Defense Authorization Act of 1992, Public Law 102-484, requires the Army to establish the position of Project Manager for Alternative Technologies and Approaches to examine alternative technologies for demilitarizing chemical weapons at two bulk sites if operations can be completed within the baseline schedule, and if operations are significantly safer and are equal to or more cost-effective than the approved baseline incineration process. The Project Manager for Alternative Technologies and Approaches reports to the Program Manager for Chemical Demilitarization.

Program Manager for Assembled Chemical Weapons Assessment. In 1996, in response to direction from Congress, the Office of the Secretary of Defense established the Program Manager for Assembled Chemical Weapons Assessment. The Congress directed that a program manager other than the Program Manager for Chemical Demilitarization identify and demonstrate at least two alternative technologies for destroying assembled chemical weapons. The Army as the Executive Agent designated the Soldier and Biological Chemical Command as the organization for providing management oversight even though the Assembled Chemical Weapons Assessment Program was funded through the Chemical Demilitarization Program. Additionally, the Program Manager for Assembled Chemical Weapons Assessment provides reports on program status directly to the Under Secretary of Defense for Acquisition, Technology, and Logistics.

Project Manager for Chemical Stockpile Emergency Preparedness. Public Law 99-145 requires the Chemical Stockpile Emergency Preparedness Project to ensure that the public surrounding the chemical storage sites receive maximum protection. The Project Manager for Chemical Stockpile Emergency Preparedness is managed by the U.S. Army Soldier and Biological Chemical Command, but reports directly to the Assistant Secretary of the Army for Installations and Environment. The Defense Authorization Act of 1999, section 1521, title 50, United States Code, “Destruction of Existing Stockpile of Lethal Chemical Agents and Munitions,” (Public Law 105-261), directs the Army to take responsibility for on-post emergency preparedness and the Federal Emergency Management Agency to take responsibility for off-post emergency preparedness. As a result, the Army established a memorandum of agreement with the Federal Emergency Management Agency to ensure that the Agency provided local municipalities with funding for the planned emergency preparedness.

Product Manager for Non-Stockpile Chemical Materiel. The Product Manager for Non-Stockpile Chemical Materiel is responsible for destroying all non-stockpile chemical materiel or chemical warfare materiel that is not part of the unitary stockpile. Non-stockpile chemical materiel includes binary chemical munitions, former chemical weapon production facilities, recovered chemical warfare materiel, and other miscellaneous chemical warfare materiel. The Product Manager for Non-Stockpile Chemical Materiel reports to the Program Manager for Chemical Demilitarization.

Appendix D. Response to the Comments of the Assistant Secretary of the Army (Installation and Environment) Concerning the Report

Our detailed response to the comments from the Acting Deputy Assistant Secretary of the Army (Chemical Demilitarization) on statements in the draft report follows. The complete text of those comments is in the Management Comments section of this report.

Assistant Secretary of the Army (Installation and Environment)'s Comments on the Finding and Audit Response

The Acting Deputy Assistant Secretary of the Army (Chemical Demilitarization) suggested some editorial changes throughout the report that we considered and made where appropriate.

The Acting Deputy Assistant also commented that the statement “Without an approved acquisition program baseline, the Under Secretary for Acquisition does not have a basis for measuring program manager performance and for reporting future breaches of program cost and schedule performance,” was not entirely accurate. He stated that the program manager must submit several cost and schedule status reports to the Under Secretary for Acquisition to measure program manager performance. Specifically, the Assistant Secretary stated that the program manager must report cost and schedule information against the 1998 approved acquisition program baseline through the quarterly Defense Acquisition Executive Summary reports and annually to Congress through the Selected Acquisition Report. He also mentioned that the program manager must submit an out-of-cycle Selected Acquisition Report to Congress if the program schedule slipped by more than 6 months from the program schedule reported as of December 2001. Further, the Assistant Secretary stated that Senate Report 107-109, “Department of Defense Appropriations Bill, 2002, and Supplemental Appropriations, 2002,” and Conference Report 107-350, “Making Appropriations for the Department of Defense for the Fiscal Year Ending September 30, 2002, and for Other Purposes,” require that the program manager provide Congress with quarterly cost and schedule reports that measure program status against the cost and schedule approved at the September 2001 Defense Acquisition Board review.

Audit Response. The Acting Deputy Assistant is correct in stating that the Under Secretary for Acquisition is provided program cost and schedule performance information in various reports during the year. For making management decisions, however, the Under Secretary for Acquisition needs a revised acquisition program baseline agreement to timely and objectively measure

program performance since the last program cost breach that was reported in September 2001, and to determine the need for further program direction.

Appendix E. Report Distribution

Office of the Secretary of Defense

Under Secretary of Defense for Acquisition, Technology, and Logistics
Deputy Assistant to the Secretary of Defense for Chemical and Biological Defense
Senior Adviser to the Deputy Secretary of Defense for Chemical and Biological Protection
Under Secretary of Defense (Comptroller/Chief Financial Officer)
Deputy Comptroller (Program/Budget)
Director (Program Analysis and Evaluation)

Joint Staff

Director, Joint Staff

Department of the Army

Assistant Secretary of the Army (Acquisition, Logistics, and Technology)
Assistant Secretary of the Army (Installations and Environment)
Program Manager, U.S. Army Chemical Demilitarization
Commander, Army Materiel Command
Commander, U.S. Army Soldier and Biological Chemical Command
Deputy Chief of Staff, G-2
Director of Force Protection, Army Counter Intelligence Center
Auditor General, Department of the Army
Commander, Army Test and Evaluation Center

Department of the Navy

Naval Inspector General
Auditor General, Department of the Navy

Department of the Air Force

Assistant Secretary of the Air Force (Financial Management and Comptroller)
Auditor General, Department of the Air Force

Other Defense Organizations

Director, Defense Contract Management Agency
Director, Defense Intelligence Agency

Non-Defense Federal Organization

Office of Management and Budget

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, Financial Management, and Intergovernmental Relations, Committee on Government Reform

House Subcommittee on National Security, Veterans Affairs, and International Relations, Committee on Government Reform

House Subcommittee on Technology and Procurement Policy, Committee on Government Reform

Assistant to the Secretary of Defense for Nuclear and Chemical and Biological Defense Programs Comments



ASSISTANT TO THE SECRETARY OF DEFENSE
3050 DEFENSE PENTAGON
WASHINGTON, DC 20301-3050

30 SEP 2002

MEMORANDUM FOR DEPARTMENT OF DEFENSE INSPECTOR GENERAL

THROUGH: DIRECTOR, ACQUISITION RESOURCES AND ANALYSIS ^{10/17/02}

FROM: SPECIAL ASSISTANT FOR CHEMICAL STOCKPILE MATTERS
(Prepared by (b) (6)
September 24, 2002)

SUBJECT: Draft DoD-IG Report #D2002AE-0081, *A Revised Acquisition Program Baseline and Threat Assessment for the Chemical Demilitarization Program*

We reviewed the subject document, and concur with your findings and recommendations.

If you have any questions, my point of contact for this action is (b) (6)

(b) (6)

Patrick J. Wakefield
Special Assistant for Chemical Stockpile Matters

Assistant Secretary of the Army (Installation and Environment) Comments



DEPARTMENT OF THE ARMY
OFFICE OF THE ASSISTANT SECRETARY OF THE ARMY
INSTALLATIONS AND ENVIRONMENT
110 ARMY PENTAGON
WASHINGTON DC 20310-0110



SEP 30 2002

REPLY TO
ATTENTION OF

SAIE-CD

MEMORANDUM FOR DEPUTY DIRECTOR, ACQUISITION MANAGEMENT
DIRECTORATE

SUBJECT: Report on a Revised Acquisition Program Baseline and Threat
Assessment for the Chemical Demilitarization Program (Project No.
D2002AE-0081)

Comments to the subject draft report are enclosed. My point of contact for
this action is (b) (6)

C. Russell H. Shearer
Acting Deputy Assistant Secretary of the Army
Chemical Demilitarization

Enclosure

DoDIG DRAFT OF A PROPOSED REPORT – DATED 31 JULY 2002
D2002AE-0081

A revised Acquisition Program Baseline and Threat Assessment for
The Chemical Demilitarization Program

ASA(I&E) COMMENTS
TO THE RECOMMENDATIONS

RECOMMENDATION A: *We recommend that the Under Secretary of Defense for Acquisition, Technology, and Logistics expedite approval of the revised acquisition program baseline for the Chemical Demilitarization Program.*

Concur: The APB has been revised and is currently at OSD level (working through the Blue Grass Programmatic/Acquisition WIPT) for approval.

RECOMMENDATION B1: *We recommend that the Program Manager for the Chemical Demilitarization Program:*

1. Submit a request for approval to the Under Secretary of Defense for Acquisition, Technology, and Logistics to waive the requirement for a traditional system threat assessment for the Chemical Demilitarization Program.

Partially concur. Concur in requesting an exemption however, non-concur in the need for a weapon system threat assessment. Even though the Program Manager (PM) did not utilize the requirements in AR 381-11 for threat assessments, the PM did follow the requirements in AR 190-13. That regulation requires the host commanders at installations where stockpile disposal program exists to conduct threat assessments. As a tenant on the installation, PMCD has participated in assessments and annual reviews. Documentation stating this to be the case has been processed through the PMCD organization to Department of the Army security personnel.

When the program was established as an ACAT1D program, it was determined to be past milestone III and that documentation requirements would be streamlined to meet program analysis needs. At that time, the stockpile was declared unclassified and it was determined that there was no validated threat for this program.

Rewrite requirements:

a. Page 4, paragraph 3, As stated, "As a result, in March 2002, the program manager revised and submitted a draft acquisition program baseline agreement to the Under Secretary for Acquisition for approval." Should read, "As a result, in November 2001, the Program Manager revised...."

Final Report
Reference

- Page 5 b. Page 5, paragraph 1, As stated, "As a result, the Army directed the program manager to determine what could be accomplished to reduce the risk of an attack on the depot sites." Should read "As a result, the Army directed the Program Manager to determine what could be accomplished to reduce the risk associated with having a stockpile if an attack on the depot sites occurred." The PMCD initiated development of the accelerated program in Sep 01 with the cost estimate of \$300M being developed for all accelerated efforts in Jan 02.
- Page 5 c. Page 5, footnote 1, As stated, "According to the Army, the stockpiles of chemical munitions and agents remain at eight of the nine destruction sites..." Should read, "According to the Army, the stockpiles of chemical munitions and agents remain at eight of the nine storage sites..."
- Page 8 d. Page 8, paragraph 2, Requesting a Threat Assessment Report, line 10. First word "incinerators" should read, "facilities."
- Page 9 e. Page 9, 2nd Bullet. As stated "enable the program manager to emphasize potential threats from hostile groups to State authorities that are responsible for issuing destruction permits." Should read "enable the Program Manager to emphasize potential threats from hostile groups to State authorities that are responsible for issuing environmental permits."
- Page 9 f. Page 9, **Environmental Permits**, last line "As stated "willing to expedite the environmental permit approval process." Should read "willing to expedite the environmental permit and permit modification approval processes."
- Page 11 g. Page 10, 3b, last line. As stated "will expedite the issuance of chemical destruction site permits." Should read, "will expedite the issuance of environmental permits and permit modifications for destructions sites."
- Page 18 h. Page 17, Department of the Army, 5th line, As stated "Commander, U.S. Army Soldier Biological and Chemical Command." Should read "Commander, U.S. Army Soldier and Biological Chemical Command."
- General comments:**
- Page 6 1. Page 6, top paragraph states: "Without an approved acquisition program baseline, the Under Secretary of Acquisition does not have a basis for measuring program manager performance and for reporting future breaches of program cost and schedule performance."
- This is not entirely accurate. The Program must report quarterly to OSD (via the DAES) and annually to Congress (via the SAR) our cost and schedule status against the APB signed in 1998, which is still in effect. In both the DAES and SAR, the PM must report current estimate for all milestones, and all changes in estimate must be explained. A deviation of six months or more from the program's current estimate as reported in the Dec 2001 SAR would require an "out-of-cycle" SAR to be submitted to Congress. In

addition, PMCD provides quarterly cost and schedule updates to Congress (required by Senate Report 107-109 and Conference Report 107-350). These reports measure PMCD's status against the cost and schedule approved at the Sep 2001 DAB.

2. Request a global change of program manager to read Program Manager.

3. On the "Draft Audit Page" and page 5, footnote 1 of the report states Johnston Island, Hawaii. Johnston Island uses an APO, AP address, thus is not located in Hawaii.

Army Deputy Chief of Staff, G-2 Comments

Final Report
Reference



REPLY TO
ATTENTION OF

DAMI-FI

DEPARTMENT OF THE ARMY
OFFICE OF THE DEPUTY CHIEF OF STAFF FOR INTELLIGENCE
WASHINGTON, DC 20310-1001



23 September 2002

MEMORANDUM FOR

DEPUTY DIRECTOR, ACQUISITION MANAGEMENT DIRECTORATE,
OFFICE OF THE ASSISTANT INSPECTOR GENERAL FOR AUDITING

SUBJECT: Comments on Draft Report on a Revised Acquisition Program
Baseline and Threat Assessment for the Chemical Dillitization
Program (Project No. D2002AE-0081)

1. Reference 31 July, 2002 Memorandum from USD for Acquisition, Technology
and Logistics, Department of the Army, SAB.

2. DAMI-FI concurs in general with subject draft report, particularly the intent of
Finding B, with several comments and clarifications, as follows:

a. The Deputy Chief of Staff for Intelligence has changed its name to
"Deputy Chief of Staff, G-2". This should be reflected throughout the report.

b. The request in Finding B, page 10, paragraph 2.a. and 2.b., to update
and modify the threat report, "Army Counterintelligence Center Special Report:
The Foreign Terrorist Threat to Army Materiel Command Chemical and
Biological Sites," dated 12 Oct 2001, is under way. The resultant report,
released for final draft coordination in Mar 2002, is "Assessment of the Risks of
Storage of Chemical Weapons (S).

c. The requirement in Finding B, page 10, paragraph 3.a. and 3.b., to
coordinate the threat assessment requested in paragraph 2 with demil site
security managers and state officials, would more appropriately be carried out by
the PM rather than HQDA DCS, G-2.

3. POC for this action is (b) (6) DAMI-FIT, (b) (6)

(b) (6)

Director, Foreign Intelligence

Page 10

Page 11

Team Members

The Acquisition Management Directorate, Office of the Assistant 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)

A large black rectangular redaction box covers the names of the team members. The text "(b) (6)" is visible in the top-left corner of the redacted area.