



**INSPECTOR GENERAL**  
DEPARTMENT OF DEFENSE  
4800 MARK CENTER DRIVE  
ALEXANDRIA, VIRGINIA 22350-1500

July 2, 2019

The Honorable Charles E. Grassley  
United States Senate  
135 Hart Senate Office Building  
Washington, DC 20510

Dear Senator Grassley:

In January 2019, you requested that the DoD OIG review allegations that DoD Office of Net Assessment (ONA) contracts were used to support partisan political or other improper or wasteful activities. Specifically, you requested that the DoD OIG review all ONA contracts with Professor Stefan Halper between 2012 and 2017, and answer the following questions:

- Who approved the contracts awarded to Professor Halper?
- What was Professor Halper required to do and what did he actually do?
- Was Professor Halper's work performed within the agreed upon milestones and at the agreed upon price?
- Was Professor Halper's work performed and payments made consistent with all applicable laws and regulations?

Our Audit component has conducted this review, and based on that review, we provide answers to your questions in the attached document prepared by our Audit staff.

Please let us know if you have any questions.

Sincerely,

A handwritten signature in black ink that reads "Kathie R. Scarrah".

Kathie R. Scarrah  
Director  
Legislative Affairs & Communications

Enclosed:  
As stated

Enclosure  
DoD OIG Review of ONA Contracts with Professor Stefan Halper

To answer your questions, the DoD OIG interviewed DoD Office of Net Assessment (ONA) and Washington Headquarters Service (WHS) senior executives and contracting and acquisition personnel. The DoD OIG also obtained and reviewed contract files, Professor Halper's proposals, pre-award documentation, statements of work, invoices, the contracting officer's representatives (CORs) file, notes and communication with the contractor, and products delivered by Professor Halper.

In addition, the DoD OIG reviewed the ONA analysts' technical evaluation of Professor Halper's proposals. The ONA analysts gave all four of Professor Halper's proposals acceptable or outstanding ratings in the areas of: (1) potential contributions to the ONA's mission and the DoD; (2) capabilities, experience, past performance; and (3) ability to manage the proposed research projects.

### **Background on the ONA's Solicitation and Selection Process**

The ONA uses Broad Agency Announcements (BAA) to award research contracts. The Federal Acquisition Regulation (FAR) describes a BAA as a notice from the government requesting scientific or research proposals from the public concerning areas of interest to the government that may lead to contracts.<sup>1</sup>

The ONA used WHS contracting officers to award research contracts to Professor Halper.<sup>2</sup> Unlike traditional contracting, where the statement of work is developed by the DoD, under BAAs the proposal submitted by the contractor becomes the contract's statement of work.

Through the BAA process, the ONA awarded four contracts to Professor Halper between May 30, 2012, and September 26, 2016. Specifically, the ONA awarded the following four contracts.

- HQ0034-16-P-0148, valued at \$411,575, on September 26, 2016. The contract consisted of two studies. The objective of the first study was to obtain the best possible analysis on how India will be affected by China's slowing economy, how U.S. interests will be affected, and what steps can be taken to protect them. The objective of the second study was to determine how China's economic slowdown may affect other South Asian nations, such as Sri Lanka, Myanmar, Bangladesh, Bhutan, Nepal, Malaysia, and Thailand.
- HQ0034-15-C-0100, valued at \$244,960, on September 24, 2015. The contract consisted of one study. The objective of the study was to obtain the best possible analysis on the prospect of Russian-Chinese collaboration against the United States and to determine the steps that can best protect U.S. interests.

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<sup>1</sup> FAR 35.016 authorizes the use of BAAs and establishes requirements for awarding contracts through a BAA solicitation.

<sup>2</sup> The WHS Acquisition Directorate provides acquisition services to all Office of Secretary of Defense components.

- HQ0034-14-C-0076, valued at \$204,000, on July 29, 2014. The contract consisted of one study. The objective of the study was to examine nine topics related to China in the year 2030, to, among other issues, understand whether China is able to steadily increase funding for its military program in 2030 and beyond. Furthermore, the objective of the study was to examine how China's changing demographic trends will affect its national priorities and its ability to recruit the high-tech force it needs to meet its modernization goals.
- HQ0034-12-C-0039, valued at \$197,626, on May 30, 2012. The contract consisted of one study. The objective of the study was to examine three topics related to China and the Three Warfares,<sup>3</sup> to, among other issues, identify the U.S. Military Commands that will be most heavily impacted by China's use of the Three Warfares and describe how the warfares may limit or disrupt the ability of the Commands to project power. Furthermore, the study was to examine how China's use of the Three Warfares limits U.S. options in pre-war situations, including possible U.S. countermeasures.

## **The DoD OIG Review**

### **1. Who approved the contracts awarded to Professor Halper?**

WHS contracting officers awarded the four contracts, valued at \$1.05 million, between May 30, 2012, and September 26, 2016, to Professor Halper. With approval from ONA personnel, WHS contracting officers and contracting specialists developed the contract structure and signed the contracts. The ONA Directors approved all four contracts awarded to Professor Halper.

For the contract awarded on September 26, 2016, ONA Director James Baker, Associate Director Andrew May, and Chief of Staff/Acquisition Officer/COR Tracey Whittlesey made the decision to award Professor Halper a contract after reviewing his proposal and the technical evaluations.

For the three contracts awarded between May 30, 2012, and September 24, 2015, the prior ONA Director, Mr. Andrew Marshall, and the retired ONA Acquisition Officer/COR, Ms. Rebecca Bash, made the decision to award Professor Halper the contracts.<sup>4</sup>

### **2. What was Professor Halper required to do, what did he actually do, and was Professor Halper's work performed within the agreed upon milestones and at the agreed upon price?**

During the performance of the contracts, according to ONA personnel and the COR file documentation, Professor Halper conducted the following work and provided the following deliverables at the following price and schedule.

- India-China Study (HQ0034-16-P-0148).

<sup>3</sup> The concept of Three Warfare refers specifically to psychological warfare, media warfare, and legal warfare.

<sup>4</sup> ONA personnel stated that Ms. Bash retired in December 2015.

- Professor Halper was required to conceptualize, commission, and deliver eight research papers related to, among other issues, China and India economic trade and the impact that a slowing Chinese economy would have on India. Professor Halper delivered the eight commissioned papers late, but within the costs allowed by the contract.

The final deliverable for this study also required Professor Halper to provide a comprehensive analysis on how India will be affected by China's slowing economy, how U.S. interests will be affected, and what steps can be taken by the United States to protect those interests. Professor Halper provided a comprehensive research paper, which provided an analysis of the Sino-Indian rivalry, the Indian Ocean as a contested area, and economic dimensions. We found that Professor Halper delivered the analysis ahead of schedule and at a cost allowed by the contract.

- Professor Halper was required to conduct a second study to determine how China's economic slowdown may affect other South Asian nations. As part of the study, Professor Halper was required to deliver an additional two research papers related to how China's economic slowdown may impact other South Asian nations. Professor Halper delivered three research papers ahead of schedule but did not bill the ONA for completing the work. The contract valued the two research papers at \$6,000. The final deliverable included country profiles of Bangladesh, Myanmar, and Sri Lanka, and an analysis of U.S., India, and Chinese relations with Bangladesh, Myanmar, and Sri Lanka. Professor Halper delivered the analysis ahead of schedule and at a cost allowable by the contract.
- The statement of work also stated that Professor Halper would interview, among other people, a former Russian Deputy Foreign Minister and Ambassador to India, a former President of the Naval War College, and a former Secretary of the Navy.<sup>5</sup> In addition to these high-ranking officials, Professor Halper listed several high-ranking officials and scholars as contributors and advisors to his study; among them was the former ONA Director, Mr. Andrew Marshall. None of the 348 footnotes in the deliverables attributed source material to an interview conducted by Professor Halper. ONA personnel could not provide us with evidence to show that any of these high-ranking officials contributed to Professor Halper's India-China study.
- Professor Halper's proposal included costs for trips to London, England; Beijing, China; and Delhi, India for the first study. For the second study, Professor Halper proposed costs for travel to Colombo, Sri Lanka. None

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<sup>5</sup> Professor Halper listed similar high-ranking officials as subjects of interviews in two of his four proposals to ONA. In the other two proposals, Professor Halper listed specific institutions, such as the National War College and Harvard University, or specific countries, such as Japan and China, as places he would visit to conduct interviews.

of these locations were incorporated into the contract's statement of work; however, \$23,525 in travel funds were included in the contract.

According to the invoices submitted by Professor Halper, he traveled to Delhi, India; London and Cambridge, England; and Tokyo, Japan during the contracts period of performance, billing the ONA \$23,525. Professor Halper provided the ONA travel documents that showed that part of his trip to Japan was paid for by a third party. ONA personnel could not provide documentation that this travel related to contract HQ0034-16-P-0148 or the name of the third party who paid part of Professor Halper's travel expenses.

- Professor Halper delivered both analyses before the required schedule date, but he was late delivering the commissioned papers on the first study. According to ONA personnel, while Professor Halper delivered the commissioned papers late, the work was performed within the contract period of performance and did not impact the delivery of his comprehensive analysis on India and China. Specifically, the contract required him to deliver:

- eight commissioned papers by March 26, 2017; these papers were delivered on April 18, 2017;
- one comprehensive analysis on India and China by September 26, 2017; this analysis was delivered on July 31, 2017; and
- one comprehensive analysis, that included two commissioned papers on of the impact of China's economic slowdown on other South Asian nations by September 29, 2018; this analysis was delivered in January 2018.

- Professor Halper completed the work on contract HQ0034-16-P-0148 for \$6,000 less than the contracted price. Specifically, the contract price was \$411,575, and he billed the ONA \$405,575. Professor Halper did not bill for providing the ONA with three commissioned papers on the impact of China's economic slowdown on other South Asian nations, which had a contract value of \$6,000.

- Russia and China Relations (HQ0034-15-C-0100).

- Professor Halper was required to provide a research paper with detailed analysis on the prospect of Russian-Chinese collaboration against the United States and to determine the steps that can best protect U.S. interests. Professor Halper delivered the analysis within the required schedule. Specifically, the contract required him to deliver the research paper within 12 months of the contract award. WHS awarded the contract on September 24, 2015, and Professor Halper submitted the final deliverable on August 29, 2016.

- Professor Halper was also required to deliver eight commissioned papers on issue areas related to Russia and China relations. The eight papers were included as part of the final deliverable on August 29, 2016.
- As part of the contract, Professor Halper stated that he would submit signed agreements for the eight commissioned papers. Professor Halper provided e-mail agreements or invoices for seven of the eight commissioned papers. The ONA COR approved payment for all eight papers, including for the one paper without the signed agreement.
- Professor Halper's proposal included travel to Beijing, Moscow, and four trips to London to complete the study. The proposed cost for these trips totaled \$9,260. Professor Halper submitted invoices for three trips to London and a trip to New York, totaling \$14,717.86. ONA personnel could not provide an explanation for why the costs for Professor Halper's travel differed from his proposal or documentation that the travel related to contract HQ0034-15-C-0100.
- Travel costs and the commissioned papers were included in the same contract line item number. Professor Halper proposed \$24,000 for the commissioned papers; however he billed only \$18,000 for the papers. Therefore, even though Professor Halper spent more on travel than he proposed, the combined costs of travel and commissioned papers were within the contracted amount.
- Professor Halper proposed that he would have discussions with analysts at several institutions, including the National War College, the Center for Strategic and International Studies, Harvard University, Cambridge University's Center of International Studies, the Royal United Services Institute, and the Ministry of Defense, among others. The statement of work also stated that Professor Halper would meet with strategic analysts, economists, and experts from the Japanese Self Defense Force, the Ministry for Trade and Investment, the Carnegie Endowment in Moscow, and former Russian diplomats, intelligence officers and strategic planners, along with several others. Additionally, the statement of work referred to the development of an advisory group for Professor Halper to draw upon to discuss the contours of the study and listed specific people that would be a part of that group. None of the 851 footnotes in the deliverables attributed source material to an interview conducted by Professor Halper. ONA personnel could not provide us any evidence that Professor Halper visited any of these locations, established an advisory group, or met with any of the specific people listed in the statement of work.
- Professor Halper billed \$244,417.86, which was within the contract price of \$244,960 for his research paper, travel, and eight commissioned papers. Specifically, he submitted six bills totaling \$244,417.86, from December

2015 to December 2016. He submitted invoices after the period of performance, and the invoices were based on the receipts Professor Halper provided for the travel that occurred during the contracts period of performance.

- China: The Year 2030 (HQ0034-14-C-0076).
  - Professor Halper was required to provide three deliverables under this contract. The first deliverable was a summary and analysis of interviews and discussions from Japan regarding various topics related to China. The second deliverable was nine expert papers addressing the nine topics related to China listed in Professor Halper's proposal. The final deliverable was a written report that examined nine topics related to China in the year 2030. Those topics included, among others, understanding whether China would be able to steadily increase funding for its military program in 2030 and beyond and how China's changing demographic trends would affect its national priorities and its ability to recruit the high-tech force it needs to meet its modernization goals. Professor Halper provided all deliverables on time and at a cost allowable by the contract.
  - According to the statement of work, Professor Halper proposed travel to London, England and Tokyo, Japan. The contract was fixed price based on the acceptance of the deliverables and did not require Professor Halper to submit travel receipts. ONA personnel could not provide documentation that Professor Halper traveled for this contract.
  - The statement of work required Professor Halper to interview and consult with analysts at several institutions, including the National War College, the Brookings Institution, the American Enterprise Institute, the Center for Strategic and International Studies, George Washington University, Harvard University, Stanford University, the Asia Pacific Center for Security Studies, Cambridge University, Oxford University, the London School of Economics, and various Ministry of Defense facilities. The statement of work stated that Professor Halper would conduct approximately 20 formal interviews and commission 9 expert papers addressing the nine topics related to China listed in Professor Halper's proposal. The three final deliverables included the 9 commissioned expert papers; a comprehensive written analysis on nine topics based on the commissioned papers, interviews, research, and guidance from Project Advisors; and a final report describing China 2030 based upon trends and likely developments over the next two decades. Of the 595 footnotes in this deliverable, 1 footnote attributed source material to an interview conducted by Professor Halper. While the ONA provided the deliverables to us, the ONA could not provide evidence to support Professor Halper's travel or interviews.

- Professor Halper provided the three deliverables within the required schedule and price. Specifically, WHS awarded the contract for \$204,000, and Professor Halper provided the deliverables as scheduled and submitted three invoices for the contracted amount. The statement of work required professor Halper to provide:
  - the first deliverable by December 31, 2014, for \$68,000. Professor Halper shipped the deliverable on December 21, 2014, and submitted the invoice for \$68,000.
  - the second deliverable by March 31, 2015, for \$68,000. Professor Halper shipped the deliverable on March 29, 2015, and submitted the invoice for \$68,000.
  - the third deliverable by July 31, 2015, for \$68,000. Professor Halper shipped the deliverable on July 29, 2015, and submitted the invoice on August 5, 2015, for \$68,000.
  
- China: The Three Warfares (HQ0034-12-C-0039).
  - The statement of work required Professor Halper to provide a comprehensive analysis that discussed topics related to the Three Warfares, such as the impact of China's use of media warfare and psychological intimidation as part of psychological warfare, and how U.S. interests are impacted by the Three Warfares. Professor Halper delivered the comprehensive analysis within the required schedule. Specifically, the contract required him to deliver the report on May 29, 2013, and he delivered the document on that date and at a cost allowable by the contract.
  - Professor Halper was also required to commission seven research papers on China and the Three Warfares and deliver the research papers with the comprehensive analysis on May 29, 2013. Professor Halper commissioned and delivered 11 research papers, 4 more papers than required by the statement of work. Professor Halper delivered the research papers within the required schedule and at a cost allowable by the contract.
  - Professor Halper was required to conduct 15 interviews to gather information for the comprehensive analysis. The final deliverable stated that Professor Halper interviewed 69 individuals from the U.S. military, England, Japan, India, and China. The final deliverable also stated that the transcripts of Professor Halper's interviews were not included in the final report due to added length of the report. Of 461 footnotes in the deliverables, 11 footnotes attributed source material to an interview conducted by Professor Halper. The ONA COR did not obtain any documentation to verify that Professor Halper actually conducted interviews in accordance with the statement of work.



- According to the statement of work, Professor Halper proposed travel to China, Japan, England, Washington D.C., and Hawaii to conduct interviews and gather information for the study. The final deliverable stated that Professor Halper traveled to India, Japan, England, Washington D.C., Rhode Island, and Hawaii to conduct interviews. Professor Halper billed the DoD for travel only to Rhode Island, Hawaii and California. However, ONA personnel reimbursed Professor Halper \$5,000 for travel to all three locations, which included costs for a trip to California, even though California was not included in the statement of work. ONA personnel could not provide an explanation on why Professor Halper's travel costs were different from the statement of work or provide documentation that Professor Halper received approval to deviate from the statement of work. The ONA COR did not obtain documentation that Professor Halper's travels related to this contract.
- The ONA received all deliverables from Professor Halper within the schedule date. Specifically, the contract required Professor Halper to deliver the interviews, commissioned papers, and comprehensive report by May 29, 2013. Professor Halper mailed the deliverables to the ONA on May 28, 2013, with the expected delivery date being May 29, 2013.
- Professor Halper completed the work on contract HQ0034-12-0039 for \$197,625.67. The contract price was \$197,625.67 and Professor Halper billed for that exact amount.

Under all four contracts, ONA CORs did not require Professor Halper to submit justification or obtain prior approval before traveling. The CORs did not require Professor Halper to submit any evidence that he interviewed personnel cited in his proposals and statements of work. Furthermore, on two of the four contracts, Professor Halper did not have receipts to support reimbursement for his travel expenses.

According to ONA personnel, these discrepancies were not unique to the contracts with Professor Halper. ONA personnel stated that they do not require contractors to provide justification for travel or evidence of the work performed while traveling. ONA personnel also stated that they do not document any communication with the contractor related to travel, even though some contractors will volunteer their itinerary and travel plans. ONA personnel stated when a deliverable is provided, they review the study for the content of the report and not the requirements of the statement of work. ONA personnel further stated that they value the information presented in the studies more than where the contractor traveled or who the contractor interviewed to obtain the information. Because of this approach, ONA personnel stated that they do not compare deliverables to the statement of work to verify that the contractor interviewed personnel outlined in the statement of work. Furthermore, ONA personnel stated that they only recently began holding in-process reviews and documenting contractor performance, but this is not done for all contractors.

### **3. Was Professor Halper's work performed and payments made consistent with all applicable laws and regulations?**

The ONA made payments to Professor Halper using Operations and Maintenance funding in accordance with sections 1301 and 1502, title 31, United States Code. While Professor Halper provided one deliverable late, that late deliverable did not impact the final deliverable for the study. Professor Halper provided all other deliverables within the terms of the contract.

The ONA CORs did not maintain documentation of the work performed by Professor Halper or any communication that ONA personnel had with Professor Halper; therefore, ONA CORs could not provide sufficient documentation that Professor Halper conducted all of his work in accordance with applicable laws and regulations. We determined that while the ONA CORs established a file to maintain documents, they did not maintain sufficient documentation to comply with all the FAR requirements related to having a complete COR File.<sup>6</sup> Specifically, on two of the four contracts, the file did not include the COR nomination letter that requires documentation to support the contractor's performance. For three of the four contracts, the COR file did not document any communication with Professor Halper, despite ONA personnel stating that they communicated with Professor Halper during the periods of performance.<sup>7</sup> The ONA COR oversight did not identify whether Professor Halper's work while traveling to different countries and conducting interviews with individuals was conducted in accordance with the FAR and the statement of work, as defined by Professor Halper's proposals.<sup>8</sup> Therefore, without adequate documentation, the ONA CORs could not be certain that payments related to Professor Halper's travel complied with OMB Circular A-123, Appendix C.<sup>9</sup>

On May 15, 2019, we made the following recommendations to the Director, Office of Net Assessment, for contract practice improvement.

1. Require that the contracting file constitute a complete record and include documentation required in Federal Acquisition Regulation, Subpart 4.8, such as signed copies of the contract and COR nomination letters.
2. Require the COR to maintain a record of all communication with the contractor(s) throughout the life of the contract(s).
3. Require COR oversight to validate the contractor performed their work in accordance with the statement of work by implementing measures of support for people interviewed

<sup>6</sup> FAR Part 4, "Administrative Matters," Subpart 4.8, "Government Contract Files."

<sup>7</sup> The COR file for contract HQ0034-12-0039 contained documentation related to Professor Halper requesting meetings with ONA personnel and his travel plans, but did not contain information discussed within those meetings or work performed during his travels.

<sup>8</sup> FAR 31. "Contract Cost Principles and Procedures," Subpart 205.46 "Travel Costs" states that contractor's costs incurred for lodging, meals, and incidental expenses are considered reasonable to the extent allowable by the Federal Travel Regulations and the Joint Travel Regulations Volume 2.

<sup>9</sup> OMB Circular A-123, Appendix C "Requirements of Payment Integrity Improvement" June 26, 2018, states when an agency's review is unable to discern whether a payment is proper as a result of insufficient or lack of documentation, this payment should be considered improper.

and that the interview related to the contracted research effort; and justification of travel and that the travel related to the contracted effort.

4. Implement a process to verify that the COR completed all requirements outlined in the COR nomination letter.
5. Require the contractor to submit travel receipts before approving travel related invoices.

On June 12, 2019, we met with ONA personnel and discussed the results of our review and recommendations. ONA personnel stated that they are taking action to improve their contracting practices by, among other things, improving policy, increasing contracting officer oversight, and creating checklists to ensure processes and documentation collected are in accordance with regulations. We also provided our recommendations and the results of our review to the Director, ONA, in a memorandum on June 27, 2019.

In the memorandum we requested that the Deputy Director, ONA, respond to the recommendations and indicate whether they agree or disagree with each of the recommendations. We then requested a description to what actions the ONA has taken or plans to take to accomplish the recommendations and include the actual or planned completion dates of its actions. We will also include these recommendations in the DoD OIG recommendation follow-up system and report on the status of these recommendations in the SAR and annual compendium of open recommendations until they are closed. Through this process, we will verify whether the corrective action taken by ONA personnel to improve contract practices has met the intent of our recommendations.