Audit Report

OFFICE OF THE INSPECTOR GENERAL

HOTLINE ALLEGATIONS CONCERNING PRODUCTION CONTRACTS FOR AMPHIBIOUS ASSAULT VEHICLES

Report No. 94-110 May 20, 1994

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Acronyms

AAV	Amphibious Assault Vehicle
ACO	Administrative Contracting Officer
DCAA	Defense Contract Audit Agency
DFAS	Defense Finance and Accounting Service
DLA	Defense Logistics Agency
DPRO	Defense Plant Representative Office
PCO	Procuring Contracting Officer

INSPECTOR GENERAL
DEPARTMENT OF DEFENSE
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MEMORANDUM FOR ASSISTANT SECRETARY OF THE NAVY (FINANCIAL MANAGEMENT)
DIRECTOR, DEFENSE FINANCE AND ACCOUNTING SERVICE
DIRECTOR, DEFENSE LOGISTICS AGENCY
COMMANDING GENERAL, MARINE CORPS SYSTEMS COMMAND

SUBJECT: Hotline Allegations Concerning Production Contracts for Amphibious Assault Vehicles (Project No. 4AL-8007)

Introduction

We are providing this memorandum report for your information and use. The audit was performed in response to allegations made in a letter to the Inspector General, DoD, relating to the closeout of contracts N00024-82-C-2010 and N00024-82-C-2185. The complainant made nine allegations, addressing concerns about the lack of evidence of deliveries of contractual items, the adequacy of controls over special tooling, the difficulty in reconciling contractual line items and modifications, the questionable use of funds, and delays in closing the two contracts.

Audit Results

We found validity or partial validity in four allegations (Allegations 3, 4, 7, and 9) and no validity in three other allegations (Allegations 2, 5, and 6). Although we found at least partial validity in four allegations, the valid conditions had no serious consequences. For the most part, the conditions were common to the process for closing out contracts, as evidenced by the results of recent audits discussed in the "Prior Audits and Other Reviews" section of this report. Equally important, responsible officials had either initiated or taken corrective actions on the valid conditions. On the remaining two allegations (Allegations 1 and 8), we were unable to determine the validity of the allegations because responsible officials had not yet completed their evaluations of the matters. However, we reviewed the officials' efforts and plans, and we are convinced that the efforts will satisfactorily correct any consequences found on the matters.

Objective

The audit objective was to determine the validity of Hotline allegations that we received concerning the closeout of contracts N00024-82-C-2010 and N00024-82-C-2185.

Scope and Methodology

To satisfy the audit objectives, we reviewed actions taken by the Marine Corps System Command, the Defense Logistics Agency's (DLA) Defense Plant Representative Office (DPRO), and the FMC Corporation to close out contracts N00024-82-C-2010 and N00024-82-C-2185. In doing so, we reviewed the two contracts and modifications to the contracts, as well as records dated from February 1982 through February 1994. The records related to the delivery of items, the disposition of special tooling, the support for contractual modifications and the contractor's claims, the funding of contractual line items, and the closeout of contracts. We did not use computer-based data to evaluate the allegations. Enclosure 2 lists the organizations we visited or contacted during the audit.

This program audit was made from November 1993 through February 1994, in accordance with the auditing standards issued by the Comptroller General of the United States as implemented by the Inspector General, DoD.

Internal Controls

We did not assess internal controls because the audit was limited to the allegations in the Hotline complaint.

Prior Audits and Other Reviews

The Naval Investigative Service investigated a complaint of misconduct concerning a Government official on contract N00024-82-C-2010. The Naval Investigative Service in its report, dated October 4, 1993, concluded that the official had not exhibited any misconduct.

The Inspector General, DoD, issued five audit reports from March 1990 through April 1992 addressing problems in the DoD's process for closing out contracts. The problems included delays in closing out contracts, backlogs of contracts requiring reconciliations of funds and payments, excess funds not deobligated, overpayments, inaccurate and inadequate information systems, and weaknesses in controls over Government property. Details on each prior audit are in Enclosure 1.

Background

The U.S. Marine Corps acquired its original inventory of Amphibious Assault Vehicles (AAVs) from the FMC Corporation during the 1970s. The AAVs had a planned service life of 10 years. Since a new follow-on vehicle was not anticipated until 1994, the Marine Corps decided to modernize and improve the existing vehicles. In 1977 and 1978, the FMC Corporation developed the improved AAVs under two of the Naval Sea Systems Command's contracts.

On February 9, 1982, the Navy awarded contract N00024-82-C-2010 to the FMC Corporation for the conversion of 167 AAVs to the improved configuration and the production of two new vehicles. The contract had a combination of Cost-Plus-Incentive-Fee and Cost-Plus-Fixed-Fee line items, with values totaling $175.2 million. On August 11, 1982, the Navy awarded a follow-on fixed-price incentive contract to the FMC Corporation for the conversion of 7 AAVs and the production of 28 new AAVs. Contract N00024-82-C-2185 also contained options through 1985 for the conversion of 810 vehicles and production of an additional 299 vehicles. The total value of the contract, including options, was $705.3 million.

Discussion

The Hotline complainant made nine allegations relating to closing out contract N00024-82-C-2010 and contract N00024-82-C-2185. Specific details on each allegation are provided below along with the results of our audit of the allegations.

Allegation 1. The FMC Corporation had not shipped or no documentation was available to prove that the FMC Corporation had shipped about $19.8 million of items on contract N00024-82-C-2185.

Audit Results. The extent that items went undelivered on contract N00024-82-C-2185 was not readily determinable at the time of our audit. However, efforts were underway to make that determination. The Procuring Contracting Officer (PCO) provided a list of the $19.8 million of items to the Administrative Contracting Officer (ACO) at the DPRO to determine whether the items were actually delivered. In turn, the ACO asked the FMC Corporation for information on the items. The FMC Corporation was reviewing the items on the list at the time of our audit to determine whether the items were deliverables and whether they had been delivered. On February 8, 1994, the FMC Corporation provided the ACO with the partial results of its review along with pertinent documentation. The FMC Corporation acknowledged that its review was continuing and that the Government needed to provide additional information on several items. The ACO was reviewing the documentation submitted by the FMC Corporation to ensure that the FMC Corporation adequately supported its conclusions on the items.

Although the full extent that items on the contract went undelivered was not known, preliminary results indicated the complainant's allegation was overstated. We selected $14.0 million of the $19.8 million of items on the PCO's list and reviewed the ACO's and the FMC Corporation's research to determine the validity of the allegation. Our review of the $14.0 million in items disclosed that:

o The FMC Corporation had documentation showing the delivery of $9.3 million of the items.

o The ACO and the FMC Corporation needed additional documentation to show the delivery of $3.7 million of the items.

o The contract did not require $1.0 million of the items to be delivered.

The ACO and the FMC Corporation were continuing their research on the remaining $5.8 million of items.

Our review of the $14.0 million of the items convinced us that the ACO's and the FMC Corporation's efforts will satisfactorily correct any conditions found on the items. Further, even if the PCO had not provided a list of questionable deliveries, a normal part of the process for closing out contracts requires the ACO to verify deliveries. The list that the PCO provided duplicated data in the DPRO's automated system for tracking deliveries on a contract. Before the ACO can close out a contract, the automated system must show that the items ordered on a contract line item equal the quantities shipped and accepted for that line item. If any line items are not in balance, the ACO must then determine whether the items were actually delivered and accepted.

Allegation 2. Identifying the special tooling on contract N00024-82-C-2010 was "very difficult due to the inaccuracy and inadequacy of the property control and disposition records and audit trail held at FMC, as well as the property control and disposition records held at the ACO's office." The allegation was based on the belief that the AAV Program Office had only identified 55 of 187 subcontractors with special tooling related to the contract.

Audit Results. The allegation was unsubstantiated. The PCO and the AAV Program Office assumed that 187 subcontractors had special tooling for contract N00024-82-C-2010 based solely on one page from a listing that showed subcontractors of the FMC Corporation that had the Government's special tooling. The PCO and the AAV Program Office overlooked the fact that the listing contained special tooling for at least three different contracts. The number 187 was not the number of subcontractors with special tooling as assumed by the PCO and the AAV Program Office. The number 187 was the highest data entry or record number identified to contract N00024-82-C-2010. For example, the list showed that numbers 19, 20, 21, and 55 were subcontractors with special tooling on contract N00024-84-C-2007.

In evaluating the allegation, we also identified the special tooling associated with contract N00024-82-C-2010 and determined its disposition. A total of $4.0 million of special tooling was associated with the contract at the FMC Corporation and its subsidiaries, and an additional $1.0 million of special tooling at 52 subcontractors. Further, we were able to determine the disposition of special tooling at the FMC Corporation and at 50 of the 52 subcontractors. The disposition records showed that the Government allowed the FMC Corporation and 46 of the subcontractors to abandon, scrap, sell, withdraw, or transfer back to the Government all special tooling on contract N00024-82-C-2010, except for tooling costing $34,000. We were unable to determine the disposition of the $34,000 of tooling. For the special tooling at four other subcontractors, the FMC Corporation reportedly scrapped the special tooling, costing $109,083, without obtaining disposition instructions from the DPRO. We were unable to determine the disposition of special tooling at the other two subcontractors. The special tooling at the two subcontractors cost about $19,275. In summary, we were able to verify the disposition of more than $4.8 million of the $5.0 million of special tooling associated with contract N00024-82-C-2010.

In determining the disposition of special tooling associated with contract N00024-82-C-2010, we noted that the FMC Corporation did not have property records on the special tooling at 16 subcontractors. However, as evidenced by the results of our evaluation, we were able to use other records to determine the disposition of more than 95 percent of the tooling.

Allegation 3. Subcontractors had numerous items of special tooling at subcontractor facilities for which no records existed or that the FMC Corporation's property records did not show the location or disposition of the special tooling.

Audit Results. This allegation was substantiated but exaggerated. The complainant's allegation was based solely on 10 items of special tooling that a subcontractor identified and reported to the AAV Program Office. Thiokol/Omneco, Incorporated, identified the 10 special tools by reviewing its subcontracts in anticipation of submitting a bid for AAV propulsion units. Of the 10 pieces, 8 were located at the V&W Castings Corporation and 1 each at the Morel Foundry and the ILM Corporation.

Ownership of the 10 special tools was not known. In a letter to the AAV Program Office, dated May 5, 1993, the President of the V&W Castings Corporation stated that the FMC Corporation abandoned the special tools at the V&W Castings Corporation. However, the letter did not state that the special tools were for contract N00024-82-C-2010. Additionally, the FMC Corporation had no record of the 10 items. The FMC Corporation's

records showed four special tools for contract N00024-82-C-2010 at the V&W Castings Corporation, valued at $26,125. The four items were not the same items of tooling identified by Thiokol/Omneco, Incorporated. The Government sold the four special tools on contract N00024-82-C-2010 to the V&W Castings Corporation on September 7, 1989.

Officials at the DPRO; the FMC Corporation; and Thiokol/Omneco, Incorporated, believe that the 10 special tools existed before contract N00024-82-C-2010. However, the disposition instructions for the previous contracts were no longer available.

Allegation 4. The FMC Corporation "did not provide disposition to any of the subcontractors" with special tooling. Also, the "FMC has stated that they lost track of the GFE [Government-furnished equipment;] however, FMC will not return it to the U.S. Government as directed by the PCO."

Audit Results. The allegation referred to the same 10 items of special tooling identified by Thiokol/Omneco, Incorporated. The allegation on the 10 items of special tooling was true. However, the FMC Corporation could not issue disposition instructions on the 10 items because ownership of the special tooling was unknown. Since ownership of the tooling was in question, we could not prove that the FMC Corporation was responsible for issuing disposition instructions on the tooling. In any event, 7 of the 10 items were in the Government's possession. On October 7, 1993, the FMC Corporation notified the PCO that it will issue shipping instructions for the remaining three items once the PCO provides funds for the shipping costs.

Allegation 5. "Requests for assistance from the ACO's office in locating and obtaining all the special tooling at FMC or their subcontractors were rejected by the ACO and his superiors."

Audit Results. The allegation was not substantiated. The DPRO provided extensive efforts to locate and obtain special tooling at the FMC Corporation and its subcontractors. Specifically, the DPRO researched a listing of 43 items of special tooling, involving 39 subcontractors, that the PCO provided on August 9, 1993. The DPRO determined that its property administrator had issued closing reports on each subcontractor. The DPRO's response to the PCO included pertinent documentation on the matter. The DPRO also reviewed the property administrator's files for documentation on the 10 items of special tooling found at the V&W Castings Corporation, the Morel Foundry, and the ILM Corporation. In May 1993, the ACO and the property administrator met with officials from the FMC Corporation to locate documentation on the 10 items. In June 1993, the ACO contacted the original property administrator and previous ACO who retired in 1989 for information on the disposition of the 10 items. The property administrator, who was brought in from another DPRO, spent 2 days researching the records at the FMC Corporation and the DPRO.

Allegation 6. The PCO halted the investigation into special tooling at the subcontractors.

Audit Results. The allegation was not substantiated. The PCO stopped the AAV Program Office from contacting the subcontractors directly because the Government has no privity with the subcontractors. There was no indication that the PCO precluded other means of researching the special tooling at the subcontractors. Representatives of the AAV Program Office could have investigated the matter of special tooling through the ACO and the FMC Corporation.

Allegation 7. Efforts to reconcile and close out contract line items and contract modifications had been hampered by a lack of auditable records at both the FMC Corporation and the DPRO for contract overruns and claims. As examples, the Hotline complainant alleged that:

o The Government was willing to pay a $1.2 million claim although it was unallowable under the terms of contract N00024-82-C-2185 and the FMC Corporation had not adequately supported the claim.

o The FMC Corporation submitted an invalid claim for a cost overrun of $5.8 million on contract N00024-82-C-2010.

o The FMC Corporation submitted another $1.3 million claim for spare parts after the PCO rejected the claim for the $5.8 million cost overrun. Also, the Defense Contract Audit Agency (DCAA), with full knowledge of the DPRO, forwarded the claim to the Defense Finance and Accounting Service (DFAS) for payment even though the PCO found no basis for the cost overrun.

Audit Results. The allegation was partially valid. The submission of claims would delay the closeout of the contracts; however, claims are a normal part of the contractual process. Also, our review of the three examples provided by the complainant disclosed no improper actions and no serious consequences stemmed from the examples.

For the allegation concerning the $1.2 million claim, the ACO in July 1993 definitized a $375,000 change order for a total of $815,402 or about $384,598 ($1.2 million less $815,402) less than the FMC Corporation's cost proposal. However, the ACO's action was authorized under the contract since it was to definitize a unilateral change order under which the DoD directed the FMC Corporation to perform additional work. The ACO did definitize the change order based on a lack of cost data. Supporting cost data was missing, and the ACO reconstructed cost data to definitize the change order. Three separate legal opinions stated that the ACO could definitize the change order.

For the allegation dealing with the $5.8 million claim, the FMC Corporation requested an equitable adjustment for $5.8 million. However, the PCO subsequently disallowed the FMC Corporation's request. The position of the FMC Corporation and the PCO are:

o In July 1991, the FMC Corporation submitted a claim for a $5.8 million cost increase to the Cost-Plus-Incentive-Fee portion of contract N00024-82-C-2010.

o The FMC Corporation based its claim on the fact that the PCO knew of the projected overrun and yet neglected to provide notice that additional funding would not be forthcoming, thereby inducing the FMC Corporation to continue performance.

o The FMC Corporation provided the PCO at least three sets of documentation attempting to support its request to fund the overrun. The documentation included cost performance reports and a letter, dated August 16, 1985, to the Naval Sea Systems Command addressing the Government's concerns on the projected cost overruns.

o The PCO denied the FMC Corporation's request for an equitable adjustment for the following reasons. The FMC Corporation failed to provide evidence that it notified the PCO of the potential overrun as required by the Limitation of Funds clause in the contract. The FMC Corporation could not produce documentation that the PCO directed it to continue to perform and that additional funds in excess of the target cost would be provided. The FMC Corporation did not discover the overrun until 7 years after it occurred and could not explain why the $5.8 million was reduced to $3.8 million.

o Officials at the FMC Corporation stated that it was in the process of submitting a formal claim under the disputes clause in the contract. Federal Acquisition Regulation, part 33, "Protests, Disputes, and Appeals," allows a contractor to submit a written claim. The PCO must review the facts of the claim and render a written decision either allowing or disallowing the claim.

The Hotline complainant cited a $1.3 million claim as the final example to support the allegation. This part of the allegation was not substantiated. The $1.3 million "claim" was actually an interim cost voucher submitted by the FMC Corporation.

On June 8, 1993, the FMC Corporation reduced the $5.8 million equitable adjustment discussed previously by $2.0 million. The FMC Corporation reduced the overrun because approximately $800,000 was charged in error to the overrun Cost-Plus-Incentive-Fee portion of the contract. The FMC Corporation also reduced the cost overrun by an additional $1.2 million due to a change in the target costs.

On June 9, 1993, the FMC Corporation submitted an interim cost voucher for $1.3 million, which included the $800,000 previously charged to the cost overrun. DCAA determined that the $800,000 was primarily for engineering costs incurred under the Cost-Plus-Fixed-Fee portion of the contract for the power plant test stand and auxiliary power units. The balance of the interim cost voucher consisted of overhead and prior year inventory adjustments not related to the claim for the cost overrun.

Based on the results of a DCAA audit, we concluded that the FMC Corporation submitted a valid interim cost voucher for contract N00024-82-C-2010. The fact that the PCO disallowed the claim on the Cost-Plus-Incentive-Fee portion of the contract would not preclude the payment of costs that were allocable and allowable to the Cost-Plus-Fixed-Fee part of the contract.

As part of this allegation, the Hotline complainant alleged that DCAA and the DPRO inappropriately submitted the interim voucher to the DFAS for payment. The DPRO is not responsible for the submission of cost vouchers to the DFAS. DoD Directive 5105.36, "Defense Contract Audit Agency," gives the DCAA the responsibility for reviewing and transmitting a contractor's cost voucher for payment. DCAA's submission of the voucher was appropriate.

Allegation 8. The ACO's office paid $8.6 million for spare parts with "M" account funds rather than with stock funds on contract N00024-82-C-2010. Also the "Marine Corps Logistics Base, Albany, has been unable to reconcile their portion of the contract" due to the lack of records.

Audit Results. The allegations appeared valid. However, their validity will not be known until the DFAS finishes its reconciliation of funds on the contract. Contract N00024-82-C-2010 had a unliquidated obligation of $8.4 million of stock funds that expired in 1985. Officials at the Marine Corps Logistics Base, Albany, Georgia, stated that they have received all spares on contract N00024-82-C-2010 and that the stock funds should have been exhausted. However, the officials stated that they did not have records of payments on $8.6 million of stock funds obligated on the contract. In May 1993, the ACO requested that the DFAS reconcile the funds on contract N00024-82-C-2010. At our request, on February 18, 1994, the ACO again asked the DFAS to reconcile the funds on the contract. In February 1994, the DFAS began the reconciliation. The reconciliation should determine whether the proper funds were used to pay for the spares and ensure that any necessary adjustments are made to the funds used to pay for the spares.

Allegation 9. The FMC Corporation had continually delayed the contract closeout schedule for contracts N00024-82-C-2010 and N00024-82-C-2185.

Audit Results. The allegation was partially substantiated. The closeout of contracts N00024-82-C-2010 and N00024-82-C-2185 was delayed. However, the delays occurred as a result of the unresolved issues discussed in the allegations, as well as other contractual issues. Resolving those issues is

contingent on the FMC Corporation, the DPRO, the DFAS, the DCAA, and the Marine Corps Systems Command accomplishing various tasks. Although the closeout of the contracts was proceeding slowly, the responsible parties were attempting to resolve the closeout issues. Further, the closeout schedules referred to in the allegation were provided by the FMC Corporation at the request of the AAV Program Office. The FMC Corporation was not required to provide the schedules under the terms of the contracts and, as such, was not contractually bound to meet the schedules.

Our recent audits on the contract closeout process within the DoD determined that delays in closing out contracts were common throughout the DoD (Enclosure 1). However, as a result of those audits, the DoD initiated corrective actions to improve the timeliness of contract closeouts. Those actions included starting a training program for ACOs on conducting fund reviews and the deobligation of excess funds. In addition, the DCAA adjusted its priorities for audits of contractors' overhead costs so the audits could be completed before unliquidated funds expired on contracts. Those actions will eventually facilitate the closeout of the contracts addressed by the Hotline complainant.

Management Comments

A draft of this report was provided to officials within the Defense Finance and Accounting Service, Defense Logistics Agency, and the Marine Corps System Command. Since this report contains no finding or recommendation, written comments on our conclusions were not required. Management elected not to respond.

The courtesies extended to the audit staff are appreciated. If you have questions on this audit, please contact Mr. Rayburn H. Stricklin, Program Director, at (703) 614-3965 (DSN 224-3965) or Mr. Michael T. Hill, Acting Project Manager, at (703) 693-0415 (DSN 223-0415). Enclosure 3 lists the planned distribution of this report.

David K. Steensma

David K. Steensma
Deputy Assistant Inspector General
for Auditing

Enclosures

Synopses of Prior Audit Reports

Office of the Inspector General, DoD, Report No. 92-076, "Administration of the Contract Closeout Process Within DoD," April 15, 1992. This final report concluded a series of four reports on the audit work within the DoD, as part of a Government-wide President's Council on Integrity and Efficiency audit, of the contract closeout process. The report stated that the automated system that the DLA used to maintain control over the administration of contracts, including the contract closeout process, was inaccurate and contributed to delays in closing out contracts.

The report recommended that the DLA emphasize the need to properly maintain and control the ACOs' file documentation. The report also recommended that the DFAS develop and implement procedures to better control and maintain complete and accurate files and train the appropriate personnel to input contract data properly.

The DLA agreed to reemphasize to the ACOs the need to properly maintain and control file documentation. The DFAS established procedures to control payment files better, verify the accuracy of financial data, and to train newly hired personnel who interpret and enter contractual and financial data into the automated system.

Office of the Inspector General, DoD, Report No. 91-065, "Administration of the Contract Closeout Process at the Defense Contract Management District West," March 20, 1991. The report stated that contract closeout was not timely; closeout actions on about 52 percent of the contracts reviewed were overage from 1 to 133 months. In addition, the ACOs did not make required fund reviews or recover overpayments on fixed-price incentive contracts. The Defense Contract Management District West also had internal control weaknesses in those areas.

To address the timely closeout of contracts, the report recommended that the DLA establish timeframes for closing out contracts in section 3 of the Contract Administration Report, establish a working group to assist in the backlog of contracts awaiting closeout, and hold the ACOs accountable for contract closeout through their performance plans. To address the lack of the ACOs' reviews of funds on completed contracts, the report recommended that the Defense Contract Management District West update the training curriculum for ACOs to include the new procedures for fund reviews and request the deobligation of excess funds on completed contracts. The report did not make any recommendations to collect the overpayments because the Defense Contract Management District West collected the overpayments before the issuance of the draft report.

The DLA concurred with the finding that contract closeout was untimely, but nonconcurred with the recommendations addressing the timeliness issues. The DLA agreed with the recommendation to provide training on fund review procedures and to request deobligation of excess funds.

Office of the Inspector General, DoD, Report No. 91-064, "Administration of the Contract Closeout Process at the Defense Contract Management District Mid Atlantic," March 20, 1991. The report stated that contract closeout was not timely; closeout actions on about 37 percent of the contracts reviewed were overage from 1 to 162 months. In addition, the ACOs did not make required fund reviews or recover overpayments on fixed-price incentive contracts. The Defense Contract Management District Mid Atlantic also had internal control weaknesses in those same areas.

To address the timely closeout of contracts, the report recommended that the Defense Contract Management District Mid Atlantic establish a working group to close out all overage contracts in sections 2 and 4 of the Contract Administration Report, establish milestones for the working group, and hold the ACOs accountable for contract closeout through their performance plans. To address the lack of ACOs' fund reviews on completed contracts, the report recommended that the DLA include procedures explaining how to review unliquidated obligations on each type of contract. The report then recommended that the Defense Contract Management District Mid Atlantic update the training curriculum to include the new procedures and to deobligate excess funds on completed contracts. The report also recommended the collection of overpayments on fixed-price incentive contracts.

The DLA concurred with the finding that contract closeout was not timely and agreed with our recommendations to establish a working group to assist in closing out overage contracts in section 4 of the Contract Administration Report and to establish milestones. The DLA nonconcurred with the recommendation to include contract closeout in the ACOs' performance plans and to develop procedures for the review of unliquidated obligations. However, the DLA agreed to work with officials at the Defense Contract Management District Mid Atlantic to develop a training curriculum. The DLA had already acted on the recommendations to deobligate excess funds and collect overpayments.

Office of the Inspector General, DoD, Report No. 90-108, "Administration of the Contract Closeout Process at the Defense Contract Management Region, Dallas," September 18, 1990. The report stated that the overall administration of the contract closeout process at the Defense Contract Management District, Dallas, Texas, was generally effective. The ACOs generally closed out their contracts on a timely basis and identified excess funds for deobligation. The report made no recommendations and management did not comment on the report.

Office of the Inspector General, DoD, Report No. 90-043, "Plant Clearance Action on Government-Owned Property in the Possession of Defense Contractors," March 2, 1990. The report stated that excess Government property at contractors' locations was not screened for reutilization, proceeds from the disposition of Government-owned property were not verified, and Government property was retained at contractors' locations after contracts were completed and closed out. The finding on property retention on completed or closed out contracts related to the process for closing out contracts.

The Assistant Secretary of Defense (Production and Logistics) concurred with the finding and recommendation to monitor the implementation of initiatives in a November 1986 policy memorandum concerning storage of Government property, plant clearance actions on unneeded property, and elimination of "no-cost" storage agreements. With the exception of the Air Force and the DLA, all organizations concurred with the finding and the recommendations to review Government property assigned to contracts awarded before 1980; ensure initiation of plant clearance actions; and where appropriate, determine why contracts were closed out before disposition of Government property. The Air Force and the DLA partially concurred with the finding but nonconcurred with the recommendation to review pre-1980 contracts. In response to the final report, the Air Force and the DLA reaffirmed their positions but agreed to review physically complete contracts awarded before 1980.

Organizations Visited or Contacted

Department of the Army

Tank-Automotive Command, Warren, MI

Marine Corps

Marine Corps Systems Command, Washington, DC
Marine Corps Logistics Base, Albany, GA

Defense Agencies

Defense Contract Audit Agency, San Jose, CA
Defense Finance and Accounting Service, Columbus, OH
Defense Logistics Agency, Alexandria, VA
  Defense Contract Management District West, Los Angeles, CA
    Defense Plant Representative Office, FMC Corporation, San Jose, CA

Contractors

FMC Corporation, San Jose, CA
Thiokol/Omneco, Incorporated, Carson City, NV

ENCLOSURE 2

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