Audit Report

OFFICE OF THE INSPECTOR GENERAL

QUICK-REACTION REPORT ON THE REVIEW OF THE RESTRICTIVE CONTRACT CLAUSE ON ANTIFRICTION BEARINGS

Report Number 92-067

April 3, 1992

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Office of the Inspector General, DoD

REPORT
NO. 92-067
(Project No. 2CF-5002)

April 3, 1992

FINAL QUICK-REACTION REPORT ON THE REVIEW OF THE
RESTRICTIVE CONTRACT CLAUSE ON ANTIFRICTION BEARINGS

PROJECT 2CF-5002

EXECUTIVE SUMMARY

Introduction. In 1988, the Secretary of Defense imposed "Buy American" restrictions on defense procurements for antifriction bearings, to help prevent erosion of the United States ball bearings industry. The restrictions were to end on September 30, 1991. On September 24, 1991, the House Committee on Armed Services (Panel on Future Uses of Defense Manufacturing and Technology Resources) held a hearing concerning a previous audit report on the failure of the DoD to fully implement those restrictions and the need to extend them. The Principal Deputy Assistant Secretary of Defense for Production and Logistics testified that DoD would extend the restrictive clause until December 31, 1992. Based on the concerns of the panel, we initiated a follow-up audit of the DoD compliance with the restrictive clause.

Objectives. The objectives of the audit were to determine whether DoD contracting officers properly included the restrictive clause in contracts pertaining to antifriction bearings and if defense contractors complied with the clause, as specified in the Defense Federal Acquisition Regulation Supplement 252.208-7006, "Required Sources for Antifriction Bearings."

Audit Results. We found that compliance had improved since FY 1989; however, in FYs 1990 and 1991, DoD contracting officers still did not always include the antifriction bearings restrictive clause in contracts, as required. In our sample, 40 of the 100 contracts awarded by the Army and Navy lacked the required clause. Only 3 of 55 contracts awarded by the Air Force and Defense Logistics Agency lacked the clause. We also determined that, when the clause was included in contracts, Defense Contract Management Command officials did not verify that contractors provided domestically manufactured bearings. The continued lack of full compliance with the imposed restrictions diminishes the effect of the regulation and makes it difficult to assess the benefits derived from the restrictions.
Internal Controls. We did not specifically examine internal controls during this review.

Potential Benefits of Audit. We did not identify any potential monetary benefits during the audit (Enclosure 6). However, we did identify opportunities to improve compliance with laws and regulations.

Summary of Recommendations. We recommended that the Army and Navy buying commands immediately establish specific procedures, objectives, and controls to verify that all contracts for antifriction bearings include the required restrictive clause. We also recommended that the Defense Contract Management Districts use administrative procedures established in the Defense Logistics Agency Manual to verify contractor compliance with the restrictive clause.

Management Comments. During the audit, officials of the U.S. Army Tank-Automotive Command, the Navy Ships Parts Control Center, the Navy Aviation Supply Office, and the U.S. Marine Corps Logistics Base, Albany, Georgia, initiated immediate corrective actions to include the restrictive clause in contracts for antifriction bearings. The full details of these actions are included in Enclosure 5 of the report.

The Army concurred and stated that, rather than focus solely on the antifriction bearings restrictive clause, contracting activities would be reminded of their responsibility to ensure that each contract awarded contains all required clauses. The Navy concurred and issued guidance to all buying commands requiring establishment of procedures to incorporate the restrictive clause in contracts. The Defense Logistics Agency concurred and was issuing guidance and establishing procedures for administering the restrictive clause and reviewing subcontracts to determine if administrative remedies were appropriate for subcontractor use of foreign bearings. Additional comments to the final report were not required. The complete text of management comments is provided in Enclosures 1, 2, and 3 of the report.
MEMORANDUM FOR ASSISTANT SECRETARY OF DEFENSE (PRODUCTION AND LOGISTICS)
ASSISTANT SECRETARY OF THE ARMY (FINANCIAL MANAGEMENT)
ASSISTANT SECRETARY OF THE NAVY (FINANCIAL MANAGEMENT)
ASSISTANT SECRETARY OF THE AIR FORCE (FINANCIAL MANAGEMENT AND COMPTROLLER)
DIRECTOR, DEFENSE LOGISTICS AGENCY

SUBJECT: Final Quick-Reaction Report on the Review of the Restrictive Contract Clause on Antifriction Bearings (Project No. 2CF-5002)

Introduction

On October 1, 1991, we initiated a follow-up audit of the Restrictive Contract Clause on Antifriction Bearings. The objectives of the audit were to determine whether DoD contracting officers properly included the restrictive clause in contracts pertaining to antifriction bearings and if defense contractors complied with the clause, as specified in the Defense Federal Acquisition Regulation Supplement (DFARS) 252.208-7006, "Required Sources for Antifriction Bearings." We found that the Army, Navy, and Defense Logistics Agency did not fully implement or enforce the clause in those contracts awarded during FYs 1990 and 1991. As a result of the audit, the Army, Navy and the Defense Logistics Agency instituted actions intended to ensure the clause is included in contracts and enforced. This report is being issued in response to congressional concerns over the continued failure of the DoD to fully implement and enforce the clause, and to help prevent further deterioration of the domestic industrial base for antifriction bearings.

Scope of Audit

We judgmentally selected 155 contracts for direct purchase of antifriction bearings or components containing antifriction bearings that were issued in FYs 1990 and 1991. The 155 contracts had a combined value of $2.9 billion. We conducted our review at 11 DoD procurement offices to determine if contracting officers incorporated the DFARS antifriction bearing clause in the contracts. We analyzed 16 of the 155 contracts and 8 additional contracts from the Defense Industrial Supply Center
(DISC) to determine if Defense Contract Management Command (DCMC) officials were enforcing the certification requirement. To accomplish this, we performed the audit at five Defense Contract Management Area Operation offices. We also reviewed clause enforcement in one major weapon system contract that contained the clause, to determine if prime contractors and their subcontractors were complying with clause requirements.

We did not specifically evaluate internal controls. We did note, however, that internal control objectives and techniques were not established to verify that the restrictive clause was included in contracts for antifriction bearings. We used the "Individual Contract Action Report" (DD Form 350), a computer-processed database of contract actions over $25,000, to make our initial selection of contracts for review. We did not evaluate the reliability of the data because it was used primarily to select contracts to be included in our review. The reliability of the data would not affect the audit results.

This program results audit was conducted between October and December 1991 and covered contract actions and supporting documentation from October 1989 through December 13, 1991. Except as noted, the audit was performed in accordance with government auditing standards issued by the Comptroller General of the United States, as implemented by the Inspector General, DoD. The activities visited or contacted are listed in Enclosure 7.

Background

In 1986, the Joint Logistics Commanders performed a study titled, "Joint Logistics Commanders Bearing Study," which stated that the American antifriction bearing industry is critical to national security. The study also stated that the capability to domestically manufacture these bearings would disappear as a result of intense foreign competition. In an effort to remedy the problem, the Secretary of Defense imposed "Buy American" restrictions on defense procurements for antifriction bearings.

An interim rule to the DFARS issued in August 1988 required that all DoD procurements of bearings, bearing components, or bearings in noncommercial end items be purchased from domestic manufacturers. In addition, this same interim rule required contractors to furnish written certifications that the bearings, bearing components, or bearings contained in end items procured, were of domestic manufacture. These certifications were required upon delivery of the bearings to the DoD. The rule was incorporated into DFARS 208.79, which required that DFARS clause 252.208-7006, "Required Sources for Antifriction Bearings," be included in all applicable contracts. The clause, effective July 11, 1989, was to be in force until September 30, 1991.
On September 24, 1991, the DoD Assistant Inspector General for Auditing testified before the House Committee on Armed Services (Panel on Future Uses of Defense Manufacturing and Technology Resources) concerning our prior audit report, "Restrictive Contract Clauses on Antifriction Bearings," Report No. 91-038, dated January 30, 1991. The report found that the "Buy American" restrictive clause was not included in 68 percent of the contracts awarded in FYs 1988 and 1989. The restrictive clause should have been included in these contracts because the contracts required the purchase of antifriction bearings. The audit further disclosed that when the clause was included in the contracts, contractors rarely certified that bearings were domestically manufactured. Based on the concerns of the panel, Congress enacted legislation for FY 1992 requiring domestic procurement of antifriction bearings in accordance with the existing DFARS clause. In addition, DoD extended the clause until December 31, 1992, and we initiated a follow-up audit of the DoD implementation and enforcement of the clause at the specific request of Congressman John Spratt during the hearing.

Discussion

**Evaluating DoD compliance.** We found that compliance had improved since FY 1989; however, in FYs 1990 and 1991, DoD contracting officers still did not always include the antifriction bearings restrictive clause in contracts as required by the DFARS. Further, we found that when the clause was included in contracts, DCMC contract administration officials did not ensure that contractors complied with the clause requirements in terms of providing written certifications, delivering domestically manufactured antifriction bearings, or both. While the widespread noncompliance identified in our previous audit report was partially attributable to the time needed to implement new contracting requirements, our follow-up audit indicated that many DoD activities had not corrected the problem or improved compliance since then. The continued lack of full compliance diminishes the effect of the regulation and would make the benefits derived from full compliance difficult to assess.

**Incorporating the restrictive clause.** We found that 40 (40 percent) of the 100 contracts awarded by Army and Navy buying commands, did not contain the restrictive clause on antifriction bearings. Conversely, 52 of 55 Air Force and DISC contracts reviewed contained the required restrictive clause. The clause was not always incorporated in Army and Navy contracts because manual systems rather than computer-based systems were used to incorporate required clauses in solicitations and contracts.

A comparison of two Army buying commands' methods for incorporating the clause showed that automated systems were more reliable, whereas manual entries by contracting officers were
more prone to error. To illustrate, we found that the U.S. Army Aviation Systems Command used its automated system to incorporate the clause in all contracts, while reliance on the manual system used by the U.S. Army Tank-Automotive Command resulted in omission of the required clause in 21 of 30 contracts reviewed. In all 21 instances identified, the error occurred without detection by Army contracting officials. Similar conditions also existed at Navy buying commands that used manual systems to incorporate the restrictive clause in their contracts. Details on individual command compliance with incorporating the restrictive clause in contracts is shown in Enclosure 4.

During the audit, we discussed our interim audit results with officials of the activities having the most compliance problems; the U.S. Army Tank-Automotive Command, the Navy Ships Parts Control Center, the Navy Aviation Supply Office, and the U.S. Marine Corps Logistics Base, Albany, Georgia. These officials took immediate corrective action (Enclosure 5). However, to eliminate this problem, senior Army and Navy acquisition officials should immediately notify all of their procurement activities of the need for full compliance with the regulation on this matter. They should require establishment of internal control objectives and techniques to verify that the restrictive clause is used.

**Ensuring compliance with clause requirements.** We found that administrative contracting officers (ACOs) did not adequately monitor contracts, requiring the purchase or use of antifriction bearings, to ensure that contractors complied with DFARS clause requirements. For example, 18 (75 percent) of the 24 contracts reviewed, showed DoD did not obtain the required certification from contractors that antifriction bearings were manufactured domestically. This was a clear indication that a significant weakness in administrative oversight existed. Even when certifications were obtained, the DoD had no assurance that bearings were manufactured domestically because ACOs did not verify that contractors actually complied with the terms of the contract clause.

For instance, a review of the contract for the High Mobility Multipurpose Wheeled Vehicle (HMMWV), awarded by the U.S. Army Tank-Automotive Command, showed that the prime contractor certified that the vehicle’s bearings were manufactured domestically. However, the prime contractor did not pass on or otherwise enforce the restrictive clause requirements to its subcontractors. We found that the alternator for at least 15,000 HMMWVs contained 3 antifriction bearings manufactured by foreign sources. In addition, foreign bearings were used in the manufacture of the vehicle’s shaft couplings for at least 7 months without obtaining a waiver.

Streamlining the DFARS. In efforts to comply with congressional and DoD desires to streamline and simplify the DFARS, the DoD combined all foreign source restriction clauses. Effective December 31, 1991, DFARS clause 252.208-7006, "Required Sources for Antifriction Bearings," as referred to in DFARS subpart 208.79, was changed to DFARS 252.225-7025, "Foreign Source Restrictions." The terms of the clause remained essentially the same, although the contractor certification requirement was deleted. This deletion appears to conflict with the intent of the FY 1992 DoD Appropriations Act, Section 8127, which states that:

None of the funds appropriated or made available in this Act or any Act making appropriations for the Department of Defense for fiscal year 1992 may be obligated for procurement of ball bearings or roller bearings other than in accordance with the provisions of subpart 208.79 of the Defense Federal Acquisition Regulation Supplement (DFARS) as promulgated effective on July 11, 1989.

No recommendation was made addressing deletion of the contractor certification requirement because our audit showed that obtaining written certifications did not ensure that the contractor purchased domestically manufactured antifriction bearings. We believe compliance with the restrictive clause on antifriction bearings can be improved if ACOS provide the necessary oversight on contracts for antifriction bearings and items containing antifriction bearings, as established in DLAM 8105.1, to ensure contractor compliance in accordance with the DFARS.

Recommendations for Corrective Actions

1. We recommend that the Assistant Secretary of the Army (Research, Development, and Acquisition) and the Assistant Secretary of the Navy (Research, Development and Acquisition) direct all buying commands to:

   a. Establish specific procedures to incorporate the Defense Federal Acquisition Regulation Supplement clause 252.208-7006, renumbered as 252.225-7025, in all contracts for antifriction bearings, bearing components, or bearings contained in end items
procured, unless an exception under Defense Federal Acquisition Regulation Supplement 225.7105 applies.

D. Establish specific internal control objectives and techniques to verify that the procedures used to incorporate the clause are effective.

2. We recommend that the Director, Defense Logistics Agency:


c. Review the contract and related subcontracts for the High Mobility Multipurpose Wheeled Vehicle identified in this report to determine whether administrative remedies should be initiated as a result of contractor purchase of foreign bearings and initiate administrative remedies, as appropriate.

Management Comments

The Director, U.S. Army Contracting Support Agency concurred with the draft report findings related to the Army. The Director concurred in principle with Recommendations 1.a. and 1.b., stating that it was more appropriate to address the importance of including all required clauses in each contract awarded, rather than focus on a single issue and clause. The Director also stated that, in the Army's next Acquisition Letter, he would remind Army contracting activities of their responsibility to ensure that appropriate procedures and controls are in place to ensure that each contract awarded contains all required clauses.

The Assistant Secretary of the Navy (Research, Development and Acquisition) concurred with the draft report findings and Recommendations 1.a. and 1.b. The Assistant Secretary stated that all Navy buying commands were directed to establish specific procedures to incorporate the restrictive clause in appropriate contracts and to establish specific internal control objectives and techniques to verify that the procedures are effective.

The Deputy Comptroller, Defense Logistics Agency fully concurred with Recommendations 2.a., 2.b., and 2.c. and stated that a policy memorandum would be issued pertaining to
administering the clause. Also, the Defense Logistics Agency Manual 8105.1 would be revised to reference the antifriction bearings clause. The Deputy Comptroller also agreed to review the High Mobility Multipurpose Wheeled Vehicle contract and subcontracts and determine the need for administrative remedies.

Audit Response

We revised Recommendation 1.a. to note exceptions to the policy requiring the inclusion of the restrictive clause for antifriction bearings in DoD contracts.

We consider the responses to the draft report by the Army, Navy, and Defense Logistics Agency to be fully responsive and in conformance with the provisions of DoD Directive 7650.3. No further response is necessary. The complete texts of management comments are provided in Enclosures 1, 2, and 3.

The cooperation and courtesies extended to the audit staff are appreciated. If you have any questions on this report, please contact Mr. Salvatore D. Guli, Program Director at (703) 614-6285 (DSN 224-6285) or Mr. Ronald W. Hodges, Project Manager at (703) 614-6264 (DSN 224-6264). There were no readily identifiable potential monetary benefits associated with this report; however, other potential benefits are discussed in Enclosure 6. Copies of this report were provided to the activities and individuals listed in Enclosure 8.

Robert J. Lieberman
Assistant Inspector General for Auditing

Enclosures

cc:
Secretary of the Army
Secretary of the Navy
Secretary of the Air Force
Director of Defense Procurement
MEMORANDUM FOR INSPECTOR GENERAL, DEPARTMENT OF DEFENSE
ATTN: AUDITING, 400 ARMY NAVY DRIVE,
ARLINGTON, VIRGINIA 22202-2884

SUBJECT: Draft Quick Reaction Report on the Review of the
Restrictive Contract Clause on Antifriction Bearings
(Project No. 2CF-5002)

1. We reviewed subject draft report and concur with your
findings related to the Army. We also concur, in principle,
with Recommendation 1. However, rather than focus on a single
issue and clause, we feel it is more appropriate to address the
importance of including all required clauses in each contract
awarded.

2. We will apprise Army contracting activities of the audit
findings and remind them of their responsibility to ensure that
appropriate procedures and controls are in place to assure that
each contract awarded contains all required clauses.

3. We will address this in our next Acquisition Letter which
should be issued on or about 15 April 1992. The point of
contact for this audit is Mr. Thomas Colangelo, SFRD-KP,
703-756-7564.

J. BRUCE KING
Acting Director

CF:
SAIG-PA (Ms. Flanagan)
SARD-DER (Ms. Willey)
MEMORANDUM FOR INSPECTOR GENERAL, DEPARTMENT OF DEFENSE

Subj: DRAFT QUICK-REACTION REPORT ON THE REVIEW OF THE RESTRICTIVE CONTRACT CLAUSE ON ANTI-FRICTION BEARINGS (PROJECT NO. 2CF-5002)

This is in response to your memorandum of 5 February 1992 which requests comments on the subject draft quick-reaction report.

We concur with the finding of this report that the antifriction bearings restrictive clause has not always been included in Navy contracts as required.

We concur with recommendations 1.a. and b. that I direct all buying commands to establish:

a. specific procedures to incorporate the subject clause, in appropriate solicitations and contracts; and
b. specific internal control objectives and techniques to verify that the procedures are effective.

However, we note that Defense Federal Acquisition Regulation Supplement 225.7103 lists exceptions to the policy requiring inclusion of the restrictive clause, such as when small purchase procedures are used and the restricted item is not the end item being purchased.

I have attached a copy of the policy memorandum for distribution which implements the above recommendation.

We have no comment on recommendation 2. which is addressed to the Director, Defense Logistics Agency.

Gerald A. Cann

Copy to:
NAVCOMPT (NCB53)
NAVINSGEN

Enclosure 2
Page 1 of 2
Subj: DRAFT DOD INSPECTOR GENERAL REPORT ON THE REVIEW OF RESTRICTIVE CONTRACT CLAUSES ON ANTI-FRICTION BEARINGS, PROJECT NO. 2CP-5002

In a review of 45 Navy contracts for direct purchase of antifriction bearings or components containing antifriction bearings, the DOD IG found that the required restrictive contract clause on antifriction bearings was not included in 19 of the contracts reviewed.

In accordance with the recommendations of the draft report, Defense Federal Acquisition Regulation Supplement clause 252.225-7025, "Foreign Source Restrictions" should be established as a mandatory clause for all solicitations and contracts unless an exception under DFARS 225.7105 applies.

In addition, specific internal controls should be established to verify that the clause is being used appropriately. This will be a specific interest item for procurement management reviews (PMRs).

W. R. Morris
RADM, SC, USN
Deputy for Acquisition Policy, Integrity and Accountability

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AGC(RDA)

Enclosure 2
Page 2 of 2
MEMORANDUM FOR ASSISTANT INSPECTOR GENERAL FOR AUDITING,
DEPARTMENT OF DEFENSE

SUBJECT: Draft Quick Reaction Report on the Review of Restrictive
Contract Clauses on Antifriction Bearings (Project No.
2CF-5002)

This is in response to your 5 Feb 92 memorandum requesting our
comments on this draft audit report. The attached positions have
been approved by Ms. Helen T. McCoy, Deputy Comptroller, Defense
Logistics Agency.

[Signature]

JACQUELINE G. BRYANT
Chief, Internal Review Division
Office of the Comptroller

3 Encl
TYPE OF REPORT: AUDIT

PURPOSE OF POSITION: INITIAL POSITION


DLA COMMENTS: Concur. A policy letter will be issued to field offices providing guidance pertaining to administering the clause at DFARS 252.208-7006, 'Required Sources for Antifriction Bearings', and the new clause at DFARS 252.225-7025, 'Foreign Source Restrictions'.

DISPOSITION:
(x) Action is Ongoing. Estimated Completion Date: 31 Mar 1992
( ) Action is considered complete.

INTERNAL MANAGEMENT CONTROL WEAKNESSES

( ) Nonconcur. (Rationale must be documented and maintained with your copy of the response)
(x) Concur; however, weakness is not considered material (Rationale must be documented and maintained with your copy of the response)
( ) Concur; weakness is material and will be reported in the DLA Annual Statement of Assurance.

ACTION OFFICER: Timothy Frank, DCMC-AC, 47726.
PSE REVIEW/APPROVAL: William V. Gordon, DCMC-A, 20 Feb 92

DLA APPROVAL: Helen T. McCoy, Deputy Comptroller

*Represents response to Recommendation No. 2.a.
PURPOSE OF POSITION: INITIAL POSITION


RECOMMENDATION 1.b: We recommend that the Director, Defense Logistics Agency, amend the Defense Logistics Agency Manual 8105.1, paragraph 8.2-1 to reference the Defense Federal Acquisition Regulation Supplement clause 252-208-7006, renumbered as 252-225-7025.

DLA COMMENTS: Concur. Part 8.2 of the DLAM 8105.1 will be revised to reference the DFARS clause at 252.208.7006, and to address changes in the Defense Federal Acquisition Regulation Supplement (DFARS), including adding guidance pertaining to the new clause at DFARS 252.225-7025, "Foreign Source Restrictions".

DISPOSITION:
(x) Action is Ongoing. Estimated Completion Date: 30 June 1992
( ) Action is considered complete.

INTERNAL MANAGEMENT CONTROL WEAKNESSES
(x) Nonconcur (Rationale must be documented and maintained with your copy of the response)
(x) Concur; however, weakness is not considered material (Rationale must be documented and maintained with your copy of the response)
( ) Concur; weakness is material and will be reported in the DLA Annual Statement of Assurance.

ACTION OFFICER: Timothy Frank, DCMC-AC, 47726
FSE REVIEW/APPROVAL: William V. Morgan, DCMC-A, 20 Feb 92

DLA APPROVAL: Helen T. McCoy, Deputy Comptroller

*Represents response to Recommendation No. 2.b.
TYPE OF REPORT: AUDIT  
DATE OF POSITION: 24 Feb 92

PURPOSE OF POSITION: INITIAL POSITION


RECOMMENDATION 1.c: We recommend that the Director, Defense Logistics Agency, review the contract and related subcontracts for the High Mobility Multipurpose Wheeled Vehicle identified in this report to determine whether administrative remedies should be initiated as a result of contractor purchase of foreign bearings and initiate administrative remedies, as appropriate.

DLA COMMENTS: Concur. We have directed the Defense Contract Management District North Central to conduct a review of the High Mobility Multipurpose Wheeled Vehicle contract and related subcontracts to determine whether administrative remedies should be initiated, and to initiate such remedies as appropriate. The review should be completed and results reported to DLA-A by 31 Mar 92.

DISPOSITION:
(x) Action is Ongoing. Estimated Completion Date: 31 Mar 92
( ) Action is considered complete.

INTERNAL MANAGEMENT CONTROL WEAKNESSES
( ) Nonconcur (Rationale must be documented and maintained with your copy of the response)
(x) Concur; however, weakness is not considered material (Rationale must be documented and maintained with your copy of the response)
( ) Concur; weakness is material and will be reported in the DLA Annual Statement of Assurance.

ACTION OFFICER: Timothy Frank, DCMC-AC, 47726
PSE REVIEW/APPROVAL: William V. Gordon, DMMC-A, 20 Feb 92

DLA APPROVAL: Helen T. McCoy, Deputy Comptroller

*Represents response to Recommendation 2c.
## CONTRACTS REVIEWED FOR ANTIFRICTION BEARINGS CLAUSE

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See footnote on page 5 of this enclosure.
## CONTRACTS REVIEWED FOR ANTIFRICTION BEARINGS CLAUSE

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Enclosure 4
Page 2 of 6
## CONTRACTS REVIEWED FOR ANTIFRICTION BEARINGS CLAUSE (Cont’d)

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**NAVY SHIPS**

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SAN ANTONIO

AIR LOGISTICS CENTER

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<th>CONTRACT NUMBER</th>
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<td>F41608-90-C-2341</td>
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<td>COMMON SUPPORT</td>
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<td>F41608-90-D-1831/0001</td>
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OKLAHOMA CITY

AIR LOGISTICS CENTER

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<td>F36601-90-C-1635</td>
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See footnote on page 5 of this enclosure.

Enclosure 4
Page 4 of 6
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<th>CONTRACT NUMBER</th>
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<th>WEAPON SYSTEM APPLICATION</th>
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DEFENSE LOGISTICS AGENCY
DEFENSE INDUSTRIAL SUPPLY CENTER

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AIR FORCE/DLA SUBTOTAL | $17,264 | 52 | 3 | 55 |

GRAND TOTAL | $2,907,696 | 112 | 43 | 155 |

1/ Weapon system application was not determined.
2/ Basic Ordering Agreement awarded before clause was incorporated in computer-based system while individual orders were processed manually.
3/ Basic Ordering Agreement reviewed only. Specific delivery orders were not obtained.
4/ Small purchases were processed manually by the Air Force.
CONTRACTS REVIEWED FOR ANTIFRICTION BEARINGS CLAUSE (Cont'd)

The following acronyms are used in this enclosure.

FAASV.........................Field Artillery Ammunition Support Vehicle
HMMWV..........................High Mobility Multipurpose Wheeled Vehicle
PNVS.................................Pilot Night Vision Sensor
TADS.................................Target Acquisition Designated Sight
MEMORANDUM FOR Department of Defense, Inspector General, ATTN:
Mr. Ronald Hodges, 400 Army Navy Drive,
Arlington, VA 22202-2884

SUBJECT: Review of Restrictive Clauses on Antifriction Bearings, Project
No. 2CP-5002, AMC No. D9201

1. As a result of the subject review conducted at the U.S. Army Tank-
Automotive Command (TACOM), it was noted that several of the contracts
examined did not contain the required restrictive bearing clauses.

2. At the exit conference conducted on 29 October 1991, Mr. Ronald Hodges
suggested that a possible audit recommendation to TACOM would be to change
from optional to mandatory the generation of the restrictive bearing
clauses by the Procurement Automated Data and Document System (PADDS), and
Mr. Hodges asked for TACOM to provide its position with regard to this
recommendation as a potential corrective action.

3. TACOM has reviewed the recommendation in conjunction with current
processes and developed an alternate procedure which will better assure
inclusion of the restrictive clauses for applicable items only. This proce-
dure involves annotation of the procurement package by the Engineering
function prior to generation of the solicitation in PADDS, thereby permitting
the contract specialist to specify inclusion of the clauses in applicable
cases.

4. The above procedure is preferable, we feel, to the automatic generation
of the clauses because of the following considerations:

   a. The clause is required in a relatively small percentage of our
      procurements.

   b. Effective 31 December 1991, the clause will be combined with five
      other clauses, the new clause entitled "Foreign Source Restrictions" (DFARS
      252.225-7025). Across-the-board generation of the clause would not be in
      keeping with the policy for reducing the size of contractual documents and
      might lead to criticism for inclusion of inapplicable provisions.

5. Point of contact in the TACOM Acquisition Center is John Hopfner,
AMSTA-IDPB, DSN 786-7242.

ROBERT L. SWINT
Assistant Deputy for
Systems and Logistics

Enclosure 5
Page 1 of 4
From: Commanding Officer, Navy Ships Parts Control Center  
To: Department of Defense, Assistant Inspector General for Auditing  

Subj: REVIEW OF RESTRICTIVE CONTRACT CLAUSES ON ANTI-FRICTION BEARINGS (PROJECT NO. 2CF-5002)  

1. Auditors from your office visited SPCC from 29 October to 5 November 1991 to conduct a compliance review to determine whether contracting officers were properly including restrictive clauses in contracts for antifriction bearings and higher level assemblies that contain antifriction bearings.

2. The allowance parts lists (APLs) on the Weapon Systems File at the Navy Ships Parts Control Center are built to the end item level only. Intermediate subassemblies are not associated with their components. Therefore, there is no link between a component, i.e. an antifriction bearing, and its direct next higher level assembly in the Weapon Systems File. Consequently, our Contracting Officers are unable to readily identify all higher level assemblies which contain antifriction bearings. In order to ensure that the required clause is included when necessary, DFARS 252.208-7006 “Required Sources for Antifriction Bearings (Apr 1989)” will now be included in all solicitations and contracts except ammunition procurements. This information is being provided to you at the request of your auditor, Mr. Ron Hodges.

C.D. DEMERITT  
By direction

Enclosure 5  
Page 2 of 4
From: Commanding Officer, Navy Aviation Supply Office
To: Inspector General, Department of Defense (AUD/CM)

Subj: DODIG AUDIT #2CF-5002 - "RESTRICTIVE CONTRACT CLAUSES ON ANTIFRICTION BEARINGS"

Encl: (1) PED System Print-out

1. During DODIG audit visit of 5-7 November 1991, it was agreed that the Procurement Support Management Branch (Code 0241) would take action to incorporate subject clause into the new Procurement Early Development (PED) System as such clause had been inadvertently omitted from the data base. Action was completed on 19 Nov 1991 and enclosure (1) is furnished as confirmation that clause has been added to the PED system.

2. Your audit found contracts generated by the ASAPS system that had the mandatory clause coverage incorporated and auditors noted that the ASAPS system had been modified as of 1 October 1989.

MARYELLEN DOYLE
By direction
From: Commander, Marine Corps Logistics Base, Albany

Department of Defense Inspector General
AUD-CM, Rm 600/Jeffery Lynch
400 Army Navy Drive
Arlington, VA 22202

Subj: FOREIGN SOURCE RESTRICTION CLAUSE, DFARS 252.225-7025

1. The Department of Defense Inspector General's visit of October 1991, to
   determine whether the subject clause was appropriately utilized, found some
   instances where the clause had not been included in the solicitations and
   awards. As a result, all Contracting Officers were advised on this date to
   include subject clause in all solicitations and contracts issued by this
   installation.

   [Signature]

   R. W. PRICE
   Executive Director for
   Logistics Operations

Enclosure 5
Page 4 of 4
### SUMMARY OF POTENTIAL BENEFITS RESULTING FROM AUDIT

<table>
<thead>
<tr>
<th>Recommendation Level</th>
<th>Description of Benefit</th>
<th>Type of Benefit</th>
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<tr>
<td>1.b.</td>
<td>Internal controls. Ensure restrictive clause is incorporated in applicable contracts.</td>
<td>Nonmonetary.</td>
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<tr>
<td>2.c.</td>
<td>Compliance with laws and regulations. Identify need for administrative remedies resulting from contractor noncompliance.</td>
<td>Nonmonetary.</td>
</tr>
</tbody>
</table>
ACTIVITIES VISITED OR CONTACTED

Office of the Secretary of Defense
Deputy Assistant Secretary of Defense (Production Resources),
Washington, DC
Director, Defense Acquisition Regulations Council,
Arlington, VA

Department of the Army
Assistant Secretary of the Army (Research, Development and
Acquisition), Washington, DC
Headquarters, U.S. Army Materiel Command, Alexandria, VA
U.S. Army Tank-Automotive Command, Warren, MI
U.S. Army Aviation Systems Command, St. Louis, MO
U.S. Army Communications-Electronics Command,
Fort Monmouth, NJ

Department of the Navy
Assistant Secretary of the Navy (Research, Development and
Acquisition), Washington, DC
Naval Sea Systems Command, Washington, DC
Naval Air Systems Command, Washington, DC
Headquarters, U.S. Marine Corps, Washington, DC
Navy Ships Parts Control Center, Mechanicsburg, PA
Navy Aviation Supply Office, Philadelphia, PA
Marine Corps Logistics Base, Albany, GA

Department of the Air Force
Air Force Systems Command, Washington, DC
Air Force Logistics Command, Wright-Patterson AFB, OH
Warner Robins Air Logistics Center, Robins AFB, GA
San Antonio Air Logistics Center, Kelly AFB, TX
Oklahoma City Air Logistics Center, Tinker AFB, OK

Defense Agencies
Headquarters, Defense Logistics Agency, Alexandria, VA
Defense Contract Management Command, Alexandria, VA
Defense Contract Management District Northeast, Boston, MA
Defense Contract Management District North Central,
Chicago, IL
Defense Contract Management District Mid Atlantic,
Philadelphia, PA
Defense Contract Management Area Operation, Chicago, IL
Defense Contract Management Area Operation, Dallas, TX
Defense Contract Management Area Operation, Detroit, MI

Enclosure 7
Page 1 of 2
ACTIVITIES VISITED OR CONTACTED (Cont'd)

Defense Agencies (cont'd)

Defense Contract Management Area Operation, Hartford, CT
Defense Contract Management Area Operation, Philadelphia, PA
Defense Industrial Supply Center, Philadelphia, PA

Non-DoD Activities

AM General Corporation, South Bend, IN
Antifriction Bearings Association of America, Washington, DC
Dana Corporation, Toledo, OH
Detroit Ball Bearing Company, Warren, MI
General Motors Corporation, Warren, MI
Industrial Tectonics Incorporated, Ann Arbor, MI
NTN-Bearing Corporation of America, Southfield, MI
Prestolite Electric Incorporated, Wagoner, OK
Rae Bearing Service, Hartford, CT
Timken Company, Birmingham, MI
Tremec Trading Company, Farmington Hills, MI
FINAL REPORT DISTRIBUTION

Office of the Secretary of Defense

Under Secretary of Defense for Acquisition
Assistant Secretary of Defense (Production and Logistics)
Assistant Secretary of Defense (Public Affairs)
Director of Defense Procurement
Deputy Assistant Secretary of Defense (Logistics)
Deputy Assistant Secretary of Defense (Production Resources)
Director, Defense Acquisition Regulations Council

Department of the Army

Secretary of the Army
Assistant Secretary of the Army (Financial Management)
Assistant Secretary of the Army (Research, Development and Acquisition)
Commander, U.S. Army Materiel Command
Commander, U.S. Army Tank-Automotive Command
Commander, U.S. Army Aviation Systems Command

Department of the Navy

Secretary of the Navy
Assistant Secretary of the Navy (Financial Management)
Assistant Secretary of the Navy (Research, Development and Acquisition)
Commandant, Headquarters, U.S. Marine Corps
Commander, Naval Sea Systems Command
Commander, Naval Air Systems Command
Commander, Navy Ships Parts Control Center
Commander, Navy Aviation Supply Office
Commander, Marine Corps Logistics Base, Albany

Department of the Air Force

Secretary of the Air Force
Assistant Secretary of the Air Force (Financial Management and Comptroller)
Commander, Oklahoma City Air Logistics Center
Commander, San Antonio Air Logistics Center
Commander, Warner Robins Air Logistics Center

Enclosure 8
Page 1 of 2
Defense Agencies

Director, Defense Contract Audit Agency
Director, Defense Logistics Agency
Commander, Defense Contract Management Command

Non-DoD

Office of Management and Budget
U.S. General Accounting Office, NSIAD Technical Information Center
Antifriction Bearings Association of America

Congressional Committees:

Senate Subcommittee on Defense, Committee on Appropriations
Senate Committee on Armed Services
Senate Committee on Governmental Affairs
Ranking Minority Member, Senate Committee on Armed Services
House Committee on Appropriations
House Subcommittee on Defense, Committee on Appropriations
Ranking Minority Member, House Committee on Appropriations
House Committee on Armed Services
House Committee on Government Operations
House Subcommittee on Legislation and National Security, Committee on Government Operations
Future Uses of Defense Manufacturing and Technology Resources Panel, House Committee on Armed Services

Congressman Dennis Hertel, House of Representatives
Congresswoman Nancy Johnson, House of Representatives
Congressman John Spratt, House of Representatives