

Audit



Report

OFFICE OF THE INSPECTOR GENERAL

**GOVERNMENT PROPERTY IN THE POSSESSION
OF CONTRACTORS**

Report Number 93-037

December 17, 1992

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Department of Defense

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The following acronyms are used in this report.

- AFLC.....Air Force Logistics Command
- AFSC.....Air Force Systems Command
- ASD(P&L).....Assistant Secretary of Defense (Production
and Logistics)
- DCMC.....Defense Contract Management Command
- DFARS.....Defense Federal Acquisition Regulation Supplement
- DIPEC.....Defense Industrial Plant Equipment Center
- DLA.....Defense Logistics Agency
- FAR.....Federal Acquisition Regulation
- GAO.....General Accounting Office
- GFM.....Government-Furnished Material
- GOCO.....Government-Owned, Contractor-Operated
- IPE.....Industrial Plant Equipment
- PEPs.....Plant Equipment Packages
- ST.....Special Tooling
- STE.....Special Test Equipment
- USD(A).....Under Secretary of Defense for Acquisition



INSPECTOR GENERAL
DEPARTMENT OF DEFENSE
400 ARMY NAVY DRIVE
ARLINGTON, VIRGINIA 22202

December 17, 1992

MEMORANDUM FOR UNDER SECRETARY OF DEFENSE FOR ACQUISITION
ASSISTANT SECRETARY OF DEFENSE (PRODUCTION
AND LOGISTICS)
ASSISTANT SECRETARY OF THE NAVY (FINANCIAL
MANAGEMENT)
ASSISTANT SECRETARY OF THE AIR FORCE
(FINANCIAL MANAGEMENT AND COMPTROLLER)
INSPECTOR GENERAL, DEPARTMENT OF THE ARMY
DIRECTOR, DEFENSE LOGISTICS AGENCY

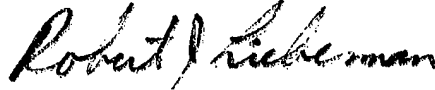
SUBJECT: Audit Report on Government Property in the
Possession of Contractors (Report No. 93-037)

We are providing this final report for your information and use. The audit was performed at the request of the Office of the Assistant Secretary of Defense (Production and Logistics) to evaluate the DoD implementation of initiatives related to management of Government property in the possession of contractors. At the request of Representative Nancy Johnson, we also reviewed the procurement practices the Defense Industrial Plant Equipment Center, Memphis, Tennessee, used in its rebuilding program for industrial plant equipment. Management comments were considered in preparing this report.

We found that the property management initiatives of 1986 had not been fully implemented. Proper implementation of recently issued regulations and instructions will address the deficiencies noted during the audit; therefore, no recommendations are made in the report and no response is required.

We appreciate the courtesies extended to the audit staff. If you have any questions on this audit, please contact Mr. Richard Jolliffe, Program Director, at (703) 692-2999

(DSN 222-2999), or Mr. Garry Hopper, Project Manager, at (703) 692-3321 (DSN 222-3321). The planned distribution of this report is listed in Appendix H.



Robert J. Lieberman
Assistant Inspector General
for Auditing

cc:
Secretary of the Army
Secretary of the Navy
Secretary of the Air Force

Office of the Inspector General, DoD

AUDIT REPORT NO. 93-037
(Project No. OCA-0047)

December 17, 1992

GOVERNMENT PROPERTY
IN THE POSSESSION OF CONTRACTORS

EXECUTIVE SUMMARY

Introduction. In response to audits by the Inspector General, DoD, and the General Accounting Office and congressional concerns related to the DoD management of Government property in the possession of contractors, the Under Secretary of Defense for Acquisition issued guidance in 1986 to reduce the level of Government property. The Under Secretary directed DoD departments and agencies to implement 30 initiatives that would dispose of excess Government property, correct unauthorized access into the DoD supply system, and stop the continuing increase in new property going to contractors. This audit was made at the request of the Office of the Assistant Secretary of Defense (Production and Logistics) to evaluate accomplishment of the 1986 property initiatives. The reported value of Government property in the possession of Defense contractors totaled \$72.2 billion (acquisition cost) as of September 30, 1990.

Objectives. Our objectives were to evaluate the DoD implementation of the 1986 property initiatives related to Government property in the possession of contractors and to determine the effectiveness of internal controls applicable to the property initiatives. At the request of Representative Nancy Johnson, we added the objective to review the procurement practices the Defense Industrial Plant Equipment Center, Memphis, Tennessee, used in its rebuilding program for industrial plant equipment.

Audit Results. The audit showed that property initiatives related to developing policy, revising regulations, and establishing procedures were basically implemented by the Military Departments and Defense Logistics Agency; however, DoD field activities had only partially implemented or not implemented the initiatives related to the identification and disposal of unneeded property, the storage of property, and the general management of Government property. As a result, the objectives of the initiatives to reduce and control Government property in the possession of contractors were not achieved. Also, the audit showed that Defense Industrial Plant Equipment Center procurement practices were acceptable for the solicitation and award of equipment rebuild contracts for industrial plant equipment.

Internal Controls. The audit confirmed the continued existence of material internal control weaknesses related to management of Government property in the possession of contractors, as reported by the DoD in recent annual assurance statements under the Federal Managers' Financial Integrity Act. See the finding for details of these weaknesses related to the disposal and storage of excess Government property and financial accounting systems and page 3 for details of our review of internal controls.

Summary of Recommendations. Based on comments from management that current property issues and policies should be emphasized rather than the 1986 initiatives, we have deleted the draft report recommendations.

Management Comments. The Assistant Secretary of Defense (Production and Logistics), the Army, and the Air Force nonconcur with the audit finding and the methodology. The Navy and the Defense Logistics Agency partially concurred with the finding. The Military Departments and the Defense Logistics Agency concurred, partially concurred, or nonconcur with our analysis on the extent of implementation of specific property initiatives. The discussion of management comments is included in Part II of the report, for each property initiative it is in Appendix B in Part III of the report, and the complete texts of management comments are in Part IV of the report.

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This report was prepared by the Contract Management Directorate, Office of the Assistant Inspector General for Auditing, DoD. Copies of the report can be obtained from the Secondary Reports Distribution Unit, Audit Planning and Technical Support Directorate, (703) 614-6303 (DSN 224-6303).

PART I - INTRODUCTION

Background

In the 1940s, the Government began providing property, such as land, buildings, equipment, and materials, to Defense contractors to support the mobilization for World War II. This practice continued after World War II and substantially increased during the Vietnam War in the 1960s. In the 1970s, DoD initiated a policy to phase down, over 5 years, all Government property in the possession of contractors. Despite the emphasis on reducing the level of property, the Inspector General, DoD, the General Accounting Office (GAO), and the Military Department audit agencies have continued to report that Government property in the possession of contractors has increased, and that material internal control weaknesses exist in the management of the property.

In the past, DoD efforts to reduce Government property in the possession of contractors were not successful because policies and procedures related to the acquisition, management, control, and disposal of this property were not followed. In response to audit reports and congressional hearings, the Under Secretary of Defense for Acquisition (USD[A]) issued a policy memorandum on Government Property in the Possession of Defense Contractors, November 25, 1986, to correct the property deficiencies. The memorandum established 30 property initiatives.

Objectives

The audit was initiated in response to a request from the Assistant Secretary of Defense (Production and Logistics) (ASD[P&L]) to review the DoD field activities implementation of the 1986 property initiatives. Government property in the possession of Defense contractors was reported as \$72.2 billion as of September 30, 1990. The audit objectives were to:

- o evaluate the implementation of property initiatives outlined in the November 1986 Under Secretary of Defense for Acquisition memorandum,

- o evaluate the Defense Industrial Plant Equipment Center (DIPEC) procurement practices used in its rebuilding program for industrial plant equipment, and

- o review the effectiveness of internal controls applicable to the property initiatives.

Scope

Universe and sample. As of September 30, 1989, 4,255 DoD locations had reported \$64.4 billion of Government property in the possession of Defense contractors. We statistically selected 14 DoD field activities with property valued at \$3.1 billion to determine whether property initiatives were implemented. We also reviewed six field activities with property valued at \$6.6 billion as part of our audit prior to selecting the statistical sample. We tested the reliability of the computer-generated data from the DD Forms 1662, "DoD Property in the Custody of Contractors," as part of our review of property initiative number 27. Although we found reportable deficiencies, we considered the data to be reliable for our primary purpose of identifying DoD field activities for review of implementation of the initiatives. The sample selection methodology is in Appendix D.

On July 1, 1990, contract administration activities, such as property administration were transferred to the Defense Contract Management Command (DCMC) (formerly the responsibility of the Military Departments). Our review also included contract administration activities not transferred, such as Navy Supervisor of Shipbuilding, Conversion and Repair sites, and Army ammunition plants. The activities visited or contacted during the audit are listed in Appendix G.

Scope of review. We verified the Military Departments and the Defense Logistics Agency (DLA) progress status reports, from the period December 1986 through August 1990, for accuracy and to determine their compliance or noncompliance with the 1986 property initiatives. Further, at each audit site, we looked for documentation and other evidence of action taken to implement the applicable property initiatives. Where documentation and other evidence of action were found, we performed limited tests to verify that the initiatives were implemented or that corrective action was taken as indicated. Where no documentary evidence existed to indicate implementation, we performed limited tests, such as reviewing for no-cost storage agreements or identifying excess material at the activity to verify whether noncompliance conditions existed. We did not attempt to perform all inclusive reviews at each activity for each property initiative because each initiative would have been a separate audit. Our primary objective was to determine whether DoD field activities implemented the initiatives, as directed, and if not, whether the undesirable conditions of excess and uncontrolled Government property in the possession of contractors existed.

Audit period and standards. This economy and efficiency audit was performed from February 1990 through December 1991 in accordance with auditing standards issued by the Comptroller General of the United States, as implemented by the Inspector General, DoD. Accordingly, we included such tests of internal controls as were considered necessary.

Internal Controls

Controls assessed. The audit evaluated the effectiveness of internal controls for implementing the property initiatives as required by the Federal Managers' Financial Integrity Act. Specifically, we reviewed internal control objectives, policies, procedures, and accounting and monitoring systems the Military Departments and DLA established: to dispose of obsolete and nonessential Government property; to reduce the amount of property in the possession of contractors; and to stop the increase in property going to contractors, as required by the 1986 property initiatives. We evaluated internal controls effectiveness from the Headquarters level through the subordinate commands to the individual field activity responsible for implementing the majority of the initiatives.

The Military Departments and DLA had procedures in place to track, monitor, and report on initiative implementation but the tracking and monitoring system stopped in 1990 and did not detect nonimplementation by the subordinate commands and field activities. In the absence of an adequate tracking system to ensure implementation, we tested for field activity compliance by limited testing of property records and reports, contracts, agreements, disposition records, excess schedules, and other documentation related to the management and control of Government property.

Internal control weaknesses. The audit confirmed material internal control weaknesses as defined by Public Law 97-255, Office of Management and Budget Circular A-123, and DoD Directive 5010.38. Our review showed that necessary policies were in place to achieve the DoD goal of better managing and controlling Government property in the possession of contractors. However, weaknesses existed related to disposing and storing of excess material (see property initiatives numbers 7, 8, 9, 10, and 22) and to implementing financial accounting systems (initiative number 26). The DoD identified Government property in the possession of Defense contractors as a high-risk area in its FY 1991 annual statement of assurance to the President and to the Congress. Review showed that DoD was continuing efforts to correct these previously reported weaknesses.

Prior Audits and Other Reviews

The Inspector General, DoD, the GAO, and the Military Department audit agencies have given considerable audit coverage to the management of Government property in the possession of contractors. In August 1980, GAO issued Report No. FGMSD-80-67, (OSD Case No. 5429), "Weakness in Accounting for Government-Furnished Material at Defense Contractors Plants Lead to Excesses." In response to the audit, DoD promised Congress and GAO that financial accounting for this material would be instituted and DoD has attempted to accomplish that objective. Since 1984, 43 reports have been issued that address the management and control of Government property in the possession of contractors. However, since that time, DoD has taken action to improve many problems that existed in this area. The reports are listed in Appendix E.

Other Matters of Interest

Representative Nancy Johnson requested that we review the procurement practices at DIPEC, Memphis, Tennessee, in its solicitations for rebuilding industrial plant equipment. The Representative was concerned that DIPEC was soliciting proposals from businesses without intentions of awarding a contract and that DIPEC procedures might be illegal in relation to the Federal Acquisition Regulation (FAR) requirements. Although the audit showed that DIPEC procedures were not technically in accordance with the FAR section 32.705-1, "Clauses for Contracting in Advance of Funds," the general intent of the FAR was met through the inclusion in the solicitations of "subject to availability of funds" notices. Therefore, the data suggest that DIPEC intended to award the contracts if funds were available.

The audit showed that in FY 1989, only 3 of 24 solicitations were canceled because of funds nonavailability, but in FY 1990 none of the solicitations were canceled because of a lack of funds. DIPEC began using a different contracting methodology in early FY 1990 and stopped using the funding availability notices.

PART II - FINDING

MANAGEMENT OF GOVERNMENT PROPERTY

DoD activities did not fully implement 19 property initiatives for managing Government property in the possession of Defense contractors. These initiatives pertain to identifying and disposing of unneeded property, storing and retaining essential property, and managing Government property. This condition existed because the Military Departments and DLA did not adequately task their commands or provide guidance to the field activities; did not establish an effective internal control system to monitor and followup on implementation of the initiatives; and did not accurately report on the field activities' status of the initiatives implementation to the Office of the ASD(P&L). As a result, contracts were not reviewed for retention or disposal of property; "no cost" storage agreements were not eliminated; excess levels of industrial plant equipment (IPE) were not removed from storage; and reliable financial accounting data on the amount of Government property in the possession of contractors were not maintained.

DISCUSSION OF DETAILS

Implementation of the Property Initiatives

The Office of the ASD(P&L) was assigned the responsibility of implementing the Under Secretary of Defense for Acquisition property initiatives. Changes were made to the FAR and the Defense Federal Acquisition Regulation Supplement (DFARS) to reflect the requirements of the property initiatives. These regulatory changes were an integral part of the DoD policy revisions related to managing and controlling Government property. Achieving the goals of the property initiatives depended on compliance by DoD field activities with those changes and with existing requirements in the FAR and DFARS.

We reviewed 14 DoD field activities and their corresponding headquarters to determine whether the 30 property initiatives were implemented. The audit showed that 11 initiatives were implemented, 15 were partially implemented, and 4 were not implemented. Appendix A summarizes the overall status of property initiatives implementation, and Appendix B details implementation for each of the 30 initiatives.

Initiatives Implemented

The OASD(P&L) implemented four initiatives (Numbers 3, 4, 5, and 15) related to policy and regulatory and procedural changes for reducing the amount of Government property provided to contractors; for establishing certification requirements when

property was provided; and for establishing guidelines for providing property to service contractors performing commercial or industrial-type activities. The Military Departments, the DLA, and their components also implemented seven initiatives that required them to: complete corrective actions recommended in Inspector General, DoD Report No. 84-032; limit transfers of property between contracts; eliminate storage and maintenance of nonessential Plant Equipment Packages (PEPs); track and report storage and maintenance cost on inactive equipment in PEPs; report property in the possession of contractors; include standards related to property management in managers performance appraisals; and realign resources to staff property functions (Numbers 11, 14, 20, 21, 27, 28, and 29, respectively).

Initiatives Not Fully Implemented

The initiatives not fully implemented were related to the identification and disposal of unneeded property, storage and retention of essential property at contractor plants and DIPEC, and general management of Government property. As a result, the Government expends monies annually to store and retain excess and nonessential property. Also, the headquarters components failed to ensure compliance with existing regulations and failed to adequately track and monitor implementation of the initiatives as required by Initiatives 1 and 2.

Identification and disposal of unneeded property. The initiatives, which relate to identifying and disposing of unneeded and nonessential property, involved different categories of property in the possession of contractors, as discussed below.

Special tools, special test equipment, and other property. Four property initiatives (Numbers 7, 9, 10, and 22) required DoD activities to identify and dispose of unneeded and excess Government property. The initiatives required that all contracts with Government property be reviewed, and the initiatives particularly highlighted special tooling (ST) and special test equipment (STE) for review and disposal. Further, the initiatives required that Defense contractors remove property no longer needed during the contract performance, but not later than at contract completion.

DLA reported to the ASD(P&L) that it was in full compliance with these initiatives, while the Air Force and Navy reported compliance with only Numbers 9, 10, and 22. However, our review showed that all "property bearing" contracts were not adequately reviewed to identify and dispose of unneeded or excess property. This occurred because the activities attempted to accomplish this by sampling procedures as recommended by the Military Departments and DLA. Field activities also indicated that they considered the review of all contracts an unachievable task. Headquarters components did not provide complete guidance to the field

activities or conduct follow-up action to verify compliance with the taskings that were made under the initiatives.

Government-Owned, Contractor-Operated (GOCO) Plants.

Four initiatives (Numbers 16, 17, 23, and 24) required Military Departments and Defense agencies to review GOCO plants, as well as all other equipment, essential to meet mission requirement. Plants and equipment in excess of requirements were to be proposed for disposal. Time-phased action plans for disposing of nonessential facilities were prepared and briefed to the ASD(P&L) within 3 months.

The Military Departments and DLA were not successful in their actions to dispose of GOCO plants as intended by the initiatives. The Military Departments and DLA were to assign a priority for retention of inactive plants, and plants that had only a marginal surge or mobilization potential were to be turned over to the private sector. Review also showed that DoD had 66 GOCO plants at the time of the initiatives, and the Military Departments identified 31 plants for disposal (DLA identified none). However, only three plants were sold or disposed of because of problems associated with hazardous waste, the conversion to nonmilitary use, the lack of interested buyers, and the lack of aggressive action.

General reserve of industrial plant equipment.

DIPEC manages the general reserve of IPE, such as machine tools and general plant equipment that DoD owns. This equipment is used to develop, produce, maintain, and test weapon systems and other equipment essential to national defense. The reserve is maintained as a result of Public Law 93-155, "The Defense Industrial Reserve Act," to provide a nucleus of Government-owned machine tools and other industrial equipment for immediate use by the military in times of national emergency. The law states that the "...reserve shall not exceed in number or kind the minimum requirements for immediate use in time of national emergency.... Items that become excess to such requirements shall be disposed of as expeditiously as possible."

Two property initiatives (Numbers 18 and 19) restated the requirements of Public Law 93-155, which required DIPEC to review the storage and maintenance of inactive IPE in the general reserve. Only essential equipment in a ready-for-issue condition was to be retained. However, DIPEC did not review and remove the nonessential equipment; and IPE, that was declared excess to DoD needs, was still in storage or on loan. In addition, the equipment in the general reserve was not in a ready-for-issue condition.

Storage and retention of property. Property Initiative 8 was intended to eliminate the use of "no-cost" (actually no direct cost) storage agreements. DoD activities were to stop using no-cost storage agreements, to justify any continued storage of Government property, and to separately price and directly fund all storage agreements.

DFARS 245.612-3, "Special Storage at the Government's Expense," was issued in December 1988 to implement the property initiative, which relates to no-cost storage agreements. The DFARS states that the contracting officer shall ensure that sufficient funds are available to pay the storage and any related tasks required of the contractor before authorizing the retention of items in storage for future use. Previously, unneeded ST and STE were retained under a storage agreement at a contractor plant for possible future use. Although the agreements required no direct payment to the contractor for the storage, the Government paid these storage costs indirectly through charges to overhead expense pools that were ultimately allocated to Government contracts.

The Army complied with the initiative to cease using no-cost storage agreements; however, the Navy, the Air Force, and DLA failed to fully comply. The Navy cited a lack of funding as a reason for not eliminating the agreements and awarded a no-cost storage agreement in February 1990 for ST/STE storage. The Air Force did not aggressively pursue the final closeout of no-cost storage agreements. In addition, the Air Force Logistics Command (AFLC) did not change the Air Force Manual 67-1 that recommends the use of no-cost storage agreements as an acceptable contracting procedure. DLA continued to award and renew no-cost storage agreements and issued guidance in 1988 pertaining to criteria for their use. Our review showed that contracting officers did not eliminate or convert no-cost storage agreements to direct cost storage agreements. Consequently, no-cost storage agreements were extended indefinitely. Activities had not removed excess ST and STE from contractors' facilities even though the storage agreements expired. In addition, activities delayed the close out of production contracts to allow for retaining ST and STE, which resulted in defacto no-cost storage agreements.

General management of Government property. The general management initiatives pertain to general control, accounting and financial systems, and reporting of Government property; incentives for contractor investment; and personnel issues.

Control, accounting, and reporting. Seven initiatives (four not fully implemented) pertain to the control, accounting, and reporting of Government property.

Controls Over Property. Initiatives 12 and 13, which relate to controls over Government material, were only partially implemented. The Military Departments and DLA have established management control activities to control contractor access to material, but significant problems exist that have prevented full operation of the activities. The Army was not fully monitoring contractor requisitions and documents to determine whether the items were authorized. Also, the Navy was experiencing Automated Data Processing problems relating to control over contractor requisitions. Further, the Air Force had problems monitoring the contractor requisition practice.

Unallowable Profits and Fees. The Military Departments and DLA reported to ASD(P&L) that Initiative 25 to eliminate unallowable profits and fees was partially or fully accomplished. However, there was no documentation to indicate the number and types of contracts reviewed, the amount of unallowable profit and fee identified, or the action taken to recover the unallowable profit or fee.

Financial Accounting Systems. DoD has been trying to develop a financial accounting system for Government property in the possession of contractors for over 10 years. The efforts of Initiative 26 continue under the Corporate Information Management initiative.

Property Reporting. The Military Departments and DLA achieved implementation of Initiative 27 by improved reporting through DD Form 1662. Although Government property in the possession of contractors has increased by \$27 billion from 1986 to 1990, we believe the majority of this increase can be attributed to better and more complete reporting. Our review showed minor reporting problems at selected activities because of omission of equipment and real property, misclassification of items of equipment, inaccuracies in contracts reported on the DD Form 1662, and problems with contractor certification of the report.

Incentives for contractor investment. The Military Departments and DLA revised applicable regulations to encourage greater contractor investments in accordance with Initiative 6; but the Army and Navy procuring activities did not adequately implement this initiative. The Army procuring activities did not evaluate the use of available contracting incentives to encourage greater investment. The Navy did not fully implement the Industrial Modernization Incentive Program, although it did implement portions of the program at several contractors.

Personnel. The Military Departments and DLA implemented Initiatives 28 and 29, which include standards for property management in managers' performance appraisals and realign resources to staff property functions. However, the Army did not achieve the desired training for property personnel as outlined in Initiative Number 30 because funds were not available for training courses.

Oversight of Implementation

The ASD(P&L) established a mechanism to track and monitor 30 property initiatives for implementation and required the Military Departments and DLA to periodically brief the ASD(P&L) and provide progress reports. On March 27, 1987, the Military Departments and DLA briefed the ASD(P&L) on the status of the initiatives' implementation, and thereafter, submitted quarterly reports until the reports were phased out in late 1988 (Navy and DLA), in 1989 (Army), and 1990 (Air Force).

Although the Military Departments and DLA provided status reports to the ASD(P&L) on 30 initiatives, we found that the guidance and taskings to the Military Departments and DLA field activities were incomplete and misleading. Also, the Military Departments and DLA failed to perform sufficient follow-up to verify reported implementation of initiatives at the field level. The audit showed that adequate inspections or reviews were not made of contracting officers, contract administrative officers, and property administrators to ensure that assigned tasks related to the property initiatives were performed. In addition, the Military Departments and DLA misrepresented the status of implementation by the field activities. Consequently, the reports to the ASD(P&L) did not represent an accurate status of the implementation at the field level.

The Military Departments and DLA approached implementing the initiatives in different ways; however, we found that taskings to the field activities did not fully address the 30 property initiatives. In addition, the Military Departments and DLA did not provide adequate guidance that would ensure implementation at the field activities. We also found that the quarterly status reports to ASD(P&L) were not based on supportable documentation that could be verified by audit. Appendix C summarizes the implementation efforts by each of the Military Departments and DLA, highlights the weaknesses and deficiencies in the process, and identifies officials that incorrectly reported the status of implementation. Noncompliance with the property initiatives primarily resulted from the failure to ensure compliance with existing policies and the failure to verify the implementation of the initiatives.

MANAGEMENT COMMENTS AND AUDIT RESPONSE

Management comments. The Assistant Secretary of the Navy (Research, Development and Acquisition) comments were positive and provided suggestions and alternative approaches for solving the problems related to management and control of Government property in the possession of contractors. The Navy and DLA partially concurred with the report finding. However, the Principal Deputy Assistant Secretary of Defense (Production and Logistics); the Director, U.S. Army Contracting Support Agency; and the Deputy Assistant Secretary of the Air Force (Acquisition) nonconcurred with the report finding and audit methodology. They stated that no evidence was provided in support of the finding, the sample size was too small, the audit results were not helpful to the requestor, and the 1986 initiatives have now been largely incorporated into regulations and instructions.

Audit response. We disagree with management comments that the audit results were not based on factual data. The audit results were based on documentation obtained from the Military Departments and DLA. During exit conferences, charts showing the extent of implementation for each property initiative at each Command and audit site reviewed were presented to the Office of the Assistant Secretary of Defense (Production and Logistics), the Military Departments, and DLA. Management may disagree with the results of the audit related to each property initiative; however, management made no attempt to measure implementation of the initiatives since 1988 (Navy and DLA), 1989 (Army), and 1990 (Air Force). Thus management has no recent systems or reports that show how well each initiative was implemented other than this report.

We also disagree that our sampling methodology was flawed. The audit sampling plan was statistically designed to test for attributes, that is, whether there was compliance or noncompliance with implementation of the property initiatives. Significant data and documentation were readily available to establish systemic noncompliance with the initiatives. Therefore, the use of attribute sampling and audit of 14 field locations, plus evidence gained from six site visits prior to the use of statistical sampling to select field locations, was sufficient to determine whether there was general compliance with the property initiatives. However, we have revised Appendix D, which describes the sampling methodology, to more fully reflect the scope of the audit and the representation of the audit results to the universe.

The scope and methodology of the audit were made clear to the requestor during the course of the project and when initial audit results were briefed. No criticism was voiced

until after a draft report was formally issued for comment. It is unfortunate that management expected a level of detail that could have been produced only by a massive audit that would not have been justifiable.

We agree that revisions to the FAR and DFARS, plus the issuance of DoD Instruction 4161.2, "Acquisition Management and Disposal of Government-Owned Contract Property," and DoD 4161.2-M, "Manual for the Performance of Contract Property Administration," constitute a new baseline for corrective action in this area. If properly implemented, they will address the deficiencies we observed. Therefore we are not including recommendations in this final report.

PART III - ADDITIONAL INFORMATION

APPENDIX A - Status of Overall Implementation of the
Property Initiatives

APPENDIX B - Implementation of Each Property Initiative

APPENDIX C - Effectiveness of the Office of the
Secretary of Defense Memorandum

APPENDIX D - Sampling Methodology

APPENDIX E - Prior Audits and Other Reviews

APPENDIX F - No-Cost Storage Agreement

APPENDIX G - Activities Visited or Contacted

APPENDIX H - Report Distribution

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APPENDIX A - STATUS OF OVERALL IMPLEMENTATION OF THE PROPERTY INITIATIVES

| <u>INITIATIVE NUMBER</u> | <u>PROPERTY INITIATIVES</u> | <u>HEADQUARTERS^{1/}</u> | <u>FIELD^{2/}</u> | <u>STATUS OF IMPLEMENTATION</u> |
|---------------------------------|--|---|----------------------------------|--|
| | <u>OVERSIGHT</u> | | | |
| 1 | Ensure compliance with existing policies. | X | | Partially Implemented |
| 2 | Establish mechanism to track the implementation. | X | | Partially Implemented |
| | <u>POLICIES AND PROCEDURES</u> | | | |
| 3 | Establish discipline in providing facilities. | | X | Implemented |
| 4 | Create procedure to certify need for facilities. | | X | Implemented |
| 5 | Eliminate FAR exception. | X | | Implemented |
| 15 | Provide the Office ASDIP&L recommendation for service contract property policy. | X | | Implemented |
| | <u>IDENTIFICATION AND DISPOSAL OF UNNEEDED PROPERTY</u> | | | |
| | <u>SPECIAL TOOLING/SPECIAL TEST EQUIPMENT (ST/STE) AND OTHER PROPERTY</u> | | | |
| 7 | Dispose of unneeded ST/STE. | | X | Partially Implemented |
| 9 | Improve acquisition, management, and disposal of ST. | | X | Partially Implemented |
| 10 | Stop misclassification of plant equipment as ST or STE. | | X | Partially Implemented |
| 22 | Review each property-bearing contract; dispose of property not required. | | X | Not Implemented |
| | <u>GOVERNMENT-OWNED CONTRACTOR-OPERATED FACILITIES (GOCOs)</u> | | | |
| 16 | Eliminate storage and maintenance of inactive and nonessential GOCOs and equipment not in GOCOs. | X | | Partially Implemented |
| 17 | Track and report storage and maintenance costs on inactive GOCOs. | X | | Partially Implemented |
| 23 | Identify mission-essential Government plants and equipment; dispose of nonessentials. | X | | Partially Implemented |
| 24 | Sell essential GOCOs where Government ownership is not required. | X | | Partially Implemented |
| | <u>GENERAL RESERVE (DEFENSE INDUSTRIAL PLANT EQUIPMENT CENTER ISSUE ONLY)</u> | | | |
| 18 | Eliminate storage and maintenance of nonessential general reserve IPE. | | X | Not implemented |
| 19 | Bring general reserve IPE into ready-for-issue condition. | | X | Not Implemented |

APPENDIX A - STATUS OF OVERALL IMPLEMENTATION OF THE PROPERTY INITIATIVES (cont'd)

| <u>INITIATIVE NUMBER</u> | <u>PROPERTY INITIATIVES</u> | <u>HEADQUARTERS^{1/}</u> | <u>FIELD^{2/}</u> | <u>STATUS OF IMPLEMENTATION</u> |
|--------------------------|---|----------------------------------|---------------------------|---------------------------------|
| | <u>STORAGE AND RETENTION OF PROPERTY</u> | | | |
| 8 | Eliminate no-cost storage agreements. | | X | Partially Implemented |
| 20 | Eliminate storage and maintenance of nonessential PEPs. | | X | Implemented |
| 21 | Track and report storage and maintenance cost on inactive equipment in PEPs. | | X | Implemented |
| | <u>GENERAL MANAGEMENT</u> | | | |
| | <u>CONTROL, ACCOUNTING, AND REPORTING</u> | | | |
| 11 | Complete action under IG, DoD Report No. 84-032, "Government-Furnished Material at DoD Production Contractors." | | X | Implemented |
| 12 | Implement DoD Instruction 4140.48 to stop unauthorized access by contractors. | X | | Partially Implemented |
| 13 | Assess risk for violations in GFM area. | X | | Partially Implemented |
| 14 | Limit transfers; receive consideration and proper authority. | | X | Implemented |
| 25 | Eliminate unallowable profits/fees on open contracts. | | X | Partially Implemented |
| 26 | Fully implement financial accounting. | | | Not Implemented |
| 27 | Report DoD property in the custody of contractors via DD Form 1662. | X | | Implemented |
| | <u>INCENTIVES FOR CONTRACTOR INVESTMENT</u> | | | |
| 6 | Increase use of incentives for contractor investment. | | X | Partially Implemented |
| | <u>PERSONNEL</u> | | | |
| 28 | Include standards for property management in managers' performance appraisals. | | X | Implemented |
| 29 | Realign resources to staff property functions. | | X | Implemented |
| 30 | Fully train property personnel. | | X | Partially Implemented |

1/ The Secretaries of the Military Departments command staffs of major commands, and headquarters staff of DLA.

2/ Procurement Contracting Officers, Military Departments, and DLA subordinate commands.

APPENDIX B - IMPLEMENTATION OF EACH PROPERTY INITIATIVE

Initiative 1 - Ensure compliance with existing property management and control policies.

The Military Departments and DLA were to place more discipline in the implementation of existing property management and control policies.

Audit results showed that the Military Departments and DLA failed to ensure compliance with existing property management and control policies and regulations.

Partially implemented.

Initiative 2 - Establish mechanism to track implementation of USD(A) Memorandum of November 25, 1986.

The Military Departments and DLA were required to track improvements on a regular basis through various forums, including the Defense Council on Integrity and Management Improvement, as appropriate.

Audit results showed that the Military Departments and DLA established tracking systems and reported on the progress of the property initiatives on a regular basis to the ASD(P&L). However, the Departments and DLA failed to adequately task and monitor the implementation of the initiatives by their major or subordinate commands and by the field activities. In addition, certain initiatives that had not been implemented were erroneously reported as completed or closed.

Partially implemented.

Army comments. The Army nonconcurred with the audit results under initiatives 1 and 2, stating that a letter was sent to each major subordinate command directing implementation of the property initiatives. Further, annual management compliance and acquisition management reviews were conducted to ensure implementation of the property initiatives. The Director of the Army Contracting Support Agency established a tracking mechanism and Headquarters Army Materiel Command established a steering group to oversee tasking and implementation of the property initiatives.

Navy comments. The Navy nonconcurred with the audit results under initiatives 1 and 2, stating that a memorandum was issued directing implementation and compliance with the property initiatives. Further, the Navy stated that a variety of methods were used to track progress in improving property management, such as procurement reviews, IG inspections, audit follow-ups,

APPENDIX B - IMPLEMENTATION OF EACH PROPERTY INITIATIVE (cont'd)

property manual coordinating efforts, and compliance monitoring by steering groups.

Air Force comments. The Air Force nonconcurred with the audit results under initiatives 1 and 2, stating that direction was issued to Air Force Systems Command (AFSC), AFLC, and field activities to ensure compliance and to establish a tracking system for implementing the property initiatives. The commands used a variety of techniques to check compliance.

DLA comments. The DLA partially concurred with the audit results under initiative 1 and nonconcurred with audit results under initiative 2, stating a letter was sent to the directors of contracting and production at the Defense Supply Centers for their immediate implementation. However, a structured follow-up system was not established because DLA considers ensuring compliance with all existing policies and regulations a continuous process. The DLA staff ensures compliance through the staff assistance visit program.

Audit response. The Military Departments and DLA comments to specific initiatives and the audit results in the finding demonstrate that these initiatives were only partially implemented. Summaries of deficiencies by the Military Departments and DLA follow:

The Army did not eliminate inactive nonessential GOCO plant and equipment (initiative 16), turn over inactive GOCO plants to the private sector (initiative 17), review all property-bearing contracts (initiative 22), dispose of inactive-excess-to-need GOCO plants (initiative 23), sell essential plants where Government ownership is not required (initiative 24), recover unallowable profits/fees (initiative 25), fully establish the financial accounting system (initiative 26), or fully train property personnel (initiative 30).

The Navy did not dispose of unneeded ST/STE (initiative 7), eliminate no-cost storage agreements (initiative 8), establish control of access to DoD material inventories (initiative 12), review all property-bearing contracts (initiative 22), sell essential plants where Government ownership is not required (initiative 24), recover unallowable profits/fee (initiative 25), or fully establish the financial accounting system (initiative 26).

APPENDIX B - IMPLEMENTATION OF EACH PROPERTY INITIATIVE (cont'd)

The Air Force did not dispose of unneeded ST/STE (initiative 7), eliminate no-cost storage agreements (initiative 8), establish control of access to DoD material inventories (initiative 12), eliminate inactive nonessential GOCO plants and equipment (initiative 16), turn over inactive GOCO plants to the private sector (initiative 17), review all property-bearing contracts (initiative 22), dispose of inactive-excess-to-need GOCO plants (initiative 23), sell essential plants where Government ownership is not required (initiative 24), or fully establish the financial accounting system (initiative 26).

DLA did not eliminate no-cost storage agreements (initiative 8), remove nonessential general reserve IPE (initiative 18), bring general reserve IPE into a ready-for-issue condition (initiative 19), review all property-bearing contracts (initiative 22), or identify essential GOCO plants (initiative 24).

The Military Departments and DLA comments did not identify the cause for failure to fully implement the property initiatives. However, we believe that an effective tracking and monitoring system was required to ensure compliance.

Initiative 3 - Establish discipline in providing facilities.

The Military Departments and DLA must exercise more discipline in carrying out the existing policies not to provide Government-owned facilities to defense contractors.

Audit results showed that the Military Departments and DLA established procedures to reinforce the existing policy requiring defense contractors to provide the facilities.

Implemented.

Initiative 4 - Create procedure to certify need for facilities.

In addition to normal detailed justifications that must be completed if Government-owned facilities are to be provided to a Defense contractor, a certification is required. Government approving officials and program managers shall certify that private financing of the facilities was sought but not available

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APPENDIX B - IMPLEMENTATION OF EACH PROPERTY INITIATIVE (cont'd)

several contractors and has programs underway at several commands and activities.

Partially implemented.

Army comments. The Army nonconcurred, stating that the new emphasis of the future is to fund research and development efforts. Currently, contractors are encouraged to invest through long-term contractual arrangements.

Navy comments. The Navy nonconcurred and stated that the Industrial Modernization Incentives Program was implemented with several contractors including Grumman, Thiokol, Northrop, McDonnell Douglas Missile Systems, Allison, and Electric Boat. The Navy currently has programs under the Naval Air and Sea Systems Commands and the Naval Command, Control, and Ocean Surveillance Center, San Diego.

Audit response. We have deleted the recommendation to implement this initiative and have revised the audit results to reflect Navy accomplishments.

Initiative 7 - Dispose of unneeded ST/STE; justify continued storage; review annually for disposal.

The Military Departments and DLA shall promptly dispose of unneeded ST/STE from contractor locations or Government storage and shall modify storage agreements. (Also see initiative 8.)

Audit results showed that the Military Departments and DLA adequately tasked field-level activities to implement this initiative. However, the Military Departments and DLA field activities have not disposed of unneeded ST/STE.

Partially implemented.

Army comments. The Army nonconcurred, stating that all Government property is reviewed by the property administrator during the annual property on-site survey. Also, retention/disposal decisions are made as a result of the surveys.

Navy comments. The Navy partially concurred and advised that disposal of excess ST/STE is ongoing. Further, the Navy directed that contractor procedures for disposition continue to be reviewed annually. Also, the quarterly property status report has been reinstated for a 2-year period beginning with the September 30, 1992, report.

APPENDIX B - IMPLEMENTATION OF EACH PROPERTY INITIATIVE (cont'd)

Air Force comments. The Air Force nonconcurred, and stated that significant effort was made to identify and dispose of unneeded ST/STE.

DLA comments. The DLA nonconcurred, stating disposition of ST/STE is a continual process and as a result there will always be excess or unneeded items. Further, property administrators review the utilization and retention of ST/STE during the annual system survey.

Audit response. To fully implement initiatives 7, 8, 9, 10, and 22, the Military Departments and DLA were to completely review all Government property and remove unneeded property. The Military Departments and DLA relied upon the annual system survey to accomplish this task. However, the surveys are performed only on a sample of contracts and will not identify all unneeded property. Accordingly, the audit found excess ST/STE. For example, we reviewed the Garrett AiResearch history inquiry report to determine the usage record of special tooling that was retained under Military Departments and DLA contracts. We found that items were retained in storage with little recorded usage. See examples under initiative 22.

Also, Air Force Audit Report No. 415046, "Management of Special Tooling and Special Test Equipment (ST/STE), McClellan AFB, California," August 8, 1990, found that 6 of 10 high-dollar-value tooling storage contracts were not screened for retention or disposal. Further, our review at McClellan Air Force Base, found that contract F04606-73-C-0770, September 30, 1986, for \$1.3 million of ST/STE was modified to extend the expiration to September 30, 1991, without the required retention analysis.

Initiative 8 - Eliminate no-cost storage agreements.

The Military Departments and DLA were to cease using no-cost storage agreements. All storage agreements were to be separately priced and directly funded. The Military Departments and DLA were to require justification for continued storage and to establish procedures for annual screening for retention or disposal. Any property identified as excess was to be disposed of on an expedited basis.

APPENDIX B - IMPLEMENTATION OF EACH PROPERTY INITIATIVE (cont'd)

The Army eliminated no-cost storage agreements; however, the Navy, Air Force, and DLA did not. In addition, the Navy, Air Force, and DLA have not separately priced or directly funded the storage agreements. For example, the Navy and Air Force awarded no-cost storage agreement number N00019-90-E-9004, February 2, 1990, and F34601-87-H-0042, March 16, 1987, respectively, for ST/STE storage. DLA awarded no-cost storage agreement number DLA500-92-C-1706, December 11, 1991, for the storage of silver bullion.

Partially implemented.

Navy comments. The Navy partially concurred and stated that as a result of our report it again screened the commands to determine that all expired, no-cost storage agreements were closed. The commands were directed to continue submitting quarterly reports until the expired agreements were closed.

Air Force comments. The Air Force stated that storage contract F34601-87-H-0042 has been closed. Further, AFLC was reviewing the last two no-cost storage agreements, and this review was scheduled to be completed in July 1992.

DLA comments. The DLA partially concurred, stating the Defense Supply Centers reported 17 no-cost storage agreements that were converted to funded storage agreements or abolished when excess property was sold. Defense Industrial Supply Center has taken action to terminate their no-cost storage agreement, contract DLA500-92-C-1706.

Audit response. The Air Force circumvented the FAR by modifying and extending no-cost storage agreements at the Sacramento Air Logistics Center. Specifically, the titles of the agreements were changed from "no-cost storage agreement" to "...tool storage agreement." However, contract terms stated, "performance of the work to be accomplished will be at no cost to the Government." See Appendix F for details. The comments and actions by the Navy and DLA indicate that corrective actions were taken to eliminate no-cost storage agreements.

APPENDIX B - IMPLEMENTATION OF EACH PROPERTY INITIATIVE (cont'd)

Initiative 9 - Improve the acquisition, management, and disposal of ST (Defense Acquisition Regulation Case No. 85-241).

The initiative required that the Military Departments and DLA improve their overall acquisition, management, and disposition of Government-owned ST.

The audit showed that acquisition and management of ST did improve. For example, Air Force revised AFR 78-3, "Special Tooling Management Program," to improve acquisition, management, and disposition of Government-owned ST. However, field activities did not fully implement the disposal of ST. See audit response under initiative 7 for details.

Partially implemented.

Army comments. The Army nonconcurred, stating that a new Defense Acquisition Regulation Case No. 90-18 was approved by the Defense Acquisition Regulation Council and was at the Civilian Agency Acquisition Council for adoption Government-wide. This case will provide revised policy and procedures for acquisition and management of ST.

Navy comments. The Navy concurred, stating that the 1989 FAR 52.245-17, "Special Tooling," tightened controls for special tooling. However, because of industry complaints a deviation was issued by the Defense Acquisition Regulation Council to use the 1984 clause. The Navy was working on Case No. 90-18 to resolve the issue.

Air Force comments. The Air Force stated that all action to improve the management of ST was completed. The Air Force stated that the FAR change was issued in 1989; however, the Defense Acquisition Regulation Council issued a deviation. Therefore, the field could take no implementation action. The Air Force also stated that the report was misleading to state that the field did not implement the new clause. Further action was proceeding under the Defense Acquisition Regulatory System and, therefore, no action remains under the 1986 USD(A) memorandum or this audit.

DLA comments. DLA partially concurred, stating guidance was furnished to the Defense Supply Centers to review all ST/STE, identify the need for it, and dispose of all unneeded ST/STE. Further, upon approval of Case 90-18 by the Civilian Agency Acquisition Council and its publication in the FAR, the overall controls over the acquisition, management, and disposal of ST should be greatly enhanced.

APPENDIX B - IMPLEMENTATION OF EACH PROPERTY INITIATIVE (cont'd)

Audit response. The disposition of Government-owned ST was not accomplished by the Air Force at two sites reviewed. See initiative 7 for details.

Initiative 10 - Stop misclassification of plant equipment as ST or STE.

The Military Departments and DLA were to strengthen their procedures to ensure that other plant equipment was not procured or misclassified as ST or STE.

The Military Departments and DLA strengthened procedures and controls to ensure that other plant equipment was not procured or misclassified as ST or STE. For example, system surveillance procedures were strengthened to ensure compliance, and technical evaluators are required to classify all property. However, the Army failed to task all field activities to ensure that other plant equipment is not procured or misclassified as ST or STE.

Partially implemented.

Army comments. The Army nonconcurred, stating that the review of plant equipment would reveal misclassification during the property administrator annual surveys.

Audit response. The Army reliance on the property administrator surveys to identify misclassified plant equipment was not directly responsive to the requirement of the initiative.

Initiative 11 - Complete actions under IG, DoD Report No. 84-032.

Inspector General, DoD Report No. 84-032, "Government-Furnished Material at DoD Production Contractors," February 2, 1984, identified management problems in the area of government-furnished material (GFM). The Military Departments and DLA were to give priority attention to correct all systemic problems in this area.

Audit results showed that the sites visited were aware of the requirement to correct the systemic problem of excess GFM at contractors, highlighted by IG, DoD Report No. 84-032. Further, the Navy established on-line capability to review material status and implemented a reapplication process for excess repair parts. Also, DLA performed a review to determine whether a substantial amount of GFM existed at contractor sites. The audit resolution process resulted in the Military Departments and DLA being required to review only those contracts with more than

APPENDIX B - IMPLEMENTATION OF EACH PROPERTY INITIATIVE (cont'd)

\$20 million of property. Therefore, only limited review effort was required by the Military Departments and DLA under the IG, DoD, Report No. 84-032.

Implemented.

Army comments. The Army nonconcurred, stating that the subject audit report had no open items and that the Army Materiel Command had not identified any systemic problems. Also, quantities of GFM over and above those authorized by the contract are detected during daily plant operations and the annual property surveys.

Navy comments. The Navy nonconcurred, stating that only contracts with more than \$20 million in property were required to be screened. Since the Naval Supply Systems Command did not have any contracts with more than \$20 million in property, the command did not issue any implementing instructions.

Air Force comments. The Air Force nonconcurred, stating that action required under IG, DoD Report No. 84-032 was completed before the 1986 property initiatives were issued.

DLA comments. DLA nonconcurred, stating that prime contracts with \$20 million or more of GFM were reviewed. DLA selected 5 of 14 contracts with \$20 million or more in GFM for review. The five contracts were reviewed and no systematic or procedural deficiencies were disclosed.

Audit response. Based on management comments and further review, we have revised our audit results and indicated that this initiative was implemented.

Initiative 12 - Complete full implementation of DoD Instruction 4140.48, "Control of Access to DoD Materiel Inventories Required by Defense Contracts," to stop unauthorized access to DoD supply system for GFM.

The Military Departments and DLA were to fully implement DoD Instruction 4140.48, "Control of Access to DoD Materiel Inventories Required by Defense Contractors," March 6, 1986, to control Defense contractors access to DoD materiel inventories and to investigate unauthorized access.

The Audit showed that the Military Departments and DLA did not fully control Defense contractor access to DoD materiel inventories. The audit showed that management control activities have been identified. However, significant problems prevented full operation of the management control activities. For

APPENDIX B - IMPLEMENTATION OF EACH PROPERTY INITIATIVE (cont'd)

example, the Army is not fully monitoring contractor requisitions, and all documents are not being reviewed to determine whether the items are authorized. Also, the Navy is experiencing access control and communication interface problems between supply sources and contractor locations. Further, the Naval Supply System Command reported that automated capability changes are required to achieve implementation. Also, the Air Force has editing problems related to monitoring the contractor requisition practice.

Partially implemented.

Army comments. The Army nonconcurred, stating that the Army automated system is implemented to the extent that the Army commands are requiring contractor requisitions to be processed through the management control activity.

Navy comments. The Navy partially concurred, and planned for implementation at the inventory control points during late 1992.

Air Force comments. The Air Force nonconcurred, stating management control activities have been operating and limiting contractor access to the DoD supply system. The Air Force agreed that improvements or refinements can always be made; however, the Air Force considers this initiative to be implemented.

DLA comments. DLA nonconcurred, stating the requirements of DoD Instruction 4140.48 were accomplished in two phases. Phase one established the management control activities to control and validate contractor requisitions and phase two was implemented in January 1991. The DLA staff was not aware of any problems found to date.

Audit response. Although the Army, Air Force, and DLA nonconcurred, their comments and actions, plus those of the Navy, indicate that substantial improvements were made and were ongoing in this area. Until all actions were completed the initiative remains partially implemented.

Initiative 13 - Establish formal process for assessing risks and possible criminal violations in GFM areas; report results under Federal Managers' Financial Integrity Act requirement.

The Military Departments and DLA are to report cases of unauthorized access by contractors into the DoD supply system to obtain GFM. They are to initiate the appropriate action, including investigation of possible criminal violations. In

APPENDIX B - IMPLEMENTATION OF EACH PROPERTY INITIATIVE (cont'd)

addition, it must be reported in the Military Departments and DLA annual certifications required by the Federal Manager's Financial Integrity Act.

Audit showed that the Navy and DLA implemented this initiative with existing procedures, and the Army implemented this initiative by revising Army Regulation 11-2, "Internal Control Systems." Air Force failed to establish formal procedures and only relied on system surveys to achieve implementation. Further, field activities within AFLC have not established a formal process for assessing risk and possible criminal violations.

Partially implemented.

Air Force comments. The Air Force nonconcurrent, stating that contract administration activities routinely check contractor compliance with GFM management requirements and insist on corrective actions when deficiencies are found. Suspected criminal activity is reported to resident agents of the Air Force Office of Special Investigations. Additionally, AFLC item manager personnel are alert to suspected misappropriation of GFM. Systemic deficiencies deemed to be internal control weaknesses will be reported through separate procedures established under the Federal Managers' Financial Integrity Act. The Air Force also stated that the report incorrectly stated that a formal process was to be established for assessing risks in the GFM area, including criminal activity.

Audit response. Although the Air Force nonconcurrent with establishing a formal procedure, their actions were responsive. However, we disagree that we incorrectly stated the requirements of initiative 13. The Government Property Initiatives Chart used to report the status of each initiative states for initiative 13, "Establish formal process for assessing risks and possible criminal violations and in GFM area...."

Initiative 14 - Limit property transfers between contracts and receive adequate consideration; do not transfer without specific authority.

The initiative requires that property being provided to contractors not be rolled over or transferred from contract to contract without proper approval. It must also be determined that the Government has received adequate consideration for the continued use by the contractor. Government property provided to perform a defense contract shall be removed from the plant when the property is no longer required for contract performance, but not later than when the contract is complete.

APPENDIX B - IMPLEMENTATION OF EACH PROPERTY INITIATIVE (cont'd)

The audit showed that the Military Departments and DLA issued specific instructions requiring approval above the contracting officer and directing that an appropriate certification be obtained prior to the transfer of Government property.

Implemented.

Initiative 15 - Provide ASD(P&L) recommendations for service contract property policy.

The initiative required that the Military Departments and DLA provide ASD(P&L) recommendations within 3 months for the development of more specific guidelines for providing existing Government property to service contractors performing commercial or industrial-type activities.

The Military Departments and DLA implemented this initiative by providing ASD(P&L) input for guidelines. For example, the Military Departments and DLA provided input to use in determining whether it is cost-effective to provide serviceable equipment on hand.

Implemented.

Initiative 16 - Eliminate storage and maintenance of inactive, nonessential GOCO plants and equipment not in GOCO plants.

The initiative required that a detailed review be performed of the storage and maintenance of inactive GOCO plants and equipment not in GOCO plants. All inactive and nonessential property was to be removed from DoD inventory.

The Military Departments partially implemented this initiative by executing a review of GOCO plants, identifying nonessential inactive property, and initiating action to eliminate some of the GOCO plants. The Navy reported no inactive, nonessential plants. However, the Army and Air Force did not eliminate storage and maintenance of inactive GOCO plants. DLA reported no plants. See initiatives 23 and 24 for details.

Partially implemented.

Comments and audit response. See comments and audit response under initiative 17.

APPENDIX B - IMPLEMENTATION OF EACH PROPERTY INITIATIVE (cont'd)

Initiative 17 - Track and report storage and maintenance costs and retention priority on all inactive GOCO plants.

The Military Departments and DLA were to review in detail the storage and maintenance cost of inactive GOCO plants. Within 3 months ASD(P&L) was to be briefed regarding the costs being incurred to store and retain the property. Additionally, the Military Departments and DLA were to prioritize their inactive plants for retention needs. Plants having a marginal surge or mobilization potential should have been turned over to the private sector.

The Military Departments partially complied with the initiative by briefing ASD(P&L) and reporting on storage and maintenance costs on all inactive GOCO plants. The Navy reported no inactive, nonessential GOCO plants. However, turning over the Army and Air Force inactive GOCO plants to the private sector has not been fully implemented. See initiatives 23 and 24. The Army reported 11 inactive plants (6 essential, 4 excess-to-need, and 1 excess-to-ownership); the Navy reported no inactive plants; the Air Force reported 1 inactive (excess-to-need) plant; and DLA reported no inactive GOCO plants.

Partially implemented.

Army comments. The Army nonconcurred with the audit results for initiative 16, stating that the Army identified seven ammunition plants as excess and was continuing to pursue the elimination of storage and maintenance of inactive, nonessential plants and equipment. However, many of the Army facilities have contamination problems that will preclude prompt disposal due to compliance with public law. The environmental problems may be long term and require tremendous expenditures not currently available. The Army also nonconcurred with initiative 17, stating that it has a model to prioritize inactive GOCO plants and that elimination efforts are based on that priority.

Air Force comments. The Air Force nonconcurred with the audit results for initiatives 16 and 17, stating the one inactive GOCO plant in care-taker status was withdrawn from the sales block and action was underway to transfer the plant from the Air Force to the Army National Guard.

DLA comments. DLA comments were not required; however, the comments provided are included under initiative 24.

APPENDIX B - IMPLEMENTATION OF EACH PROPERTY INITIATIVE (cont'd)

Audit response. Although the Army and Air Force nonconcurred, their actions and comments indicate that inactive, nonessential plants and equipments were not turned over to the private sector.

Initiative 18 - Eliminate storage and maintenance of nonessential general reserve IPE.

The initiative requires that general reserve IPE be reviewed in detail and that all but the most essential property be removed from DoD inventory.

This initiative is not applicable to the Military Departments. The DLA reported to OSD that this initiative was complete. However, the review showed that nonessential IPE remains in the DLA inventory.

Not implemented.

DLA comments. DLA nonconcurred, stating the report does not identify what the auditor considers to be nonessential IPE remaining in the DLA inventory. DLA reported that a detailed review of the general reserve was started on September 1, 1984, and completed on June 30, 1985. Since then annual reviews have been conducted against projected requirements.

Audit response. The details on the nonessential IPE were provided to DLA during our exit conference. Further, as of October 1990 DIPEC had 5,725 of nonessential IPE items that were not reported as excess.

Initiative 19 - Bring general reserve IPE into ready-for-issue condition.

The initiative requires that only essential IPE in a ready-to-issue condition be retained in the general reserve.

This initiative is not applicable to the Military Departments. For the DLA, the audit showed that IPE is not in a ready-to-issue condition.

Not implemented.

DLA comments. DLA concurred. DLA stated that it has continued to support this effort as funds were available. Further, as long as General Reserve IPE is used during peacetime the returning IPE will enter the system in a not ready-for-issue condition.

APPENDIX B - IMPLEMENTATION OF EACH PROPERTY INITIATIVE (cont'd)

Initiative 20 - Eliminate storage and maintenance of nonessential PEPs.

The initiative requires that PEPs be reviewed in detail and all but the most essential property be removed from DoD inventory.

This initiative is not applicable to the Air Force and DLA. Further, the Army reduced nonessential PEPs, and the Navy is maintaining only active PEPs.

Implemented.

Initiative 21 - Track and report storage and maintenance costs on all inactive equipment in PEPs.

The Military Departments and DLA were to review in detail the storage and maintenance of inactive property in PEPs. The ASD(P&L) was to be briefed within 3 months regarding the costs being incurred to store/retain each class of inactive property.

The audit showed that this initiative does not apply to the Air Force and DLA, and the Navy is maintaining only active PEPs. Also, the Army is tracking and reporting costs in accordance with Army Regulations 37-100 and 700-90.

Implemented.

Initiative 22 - Review each property-bearing contract; dispose of property not required.

Contract administration and contracting activities were to take immediate actions to review all contracts with Government property and dispose of all unneeded/excess property.

The audit results showed that the Air Force, Navy, and DLA reported to OSD that this initiative was complete; and the Army reported an in-process review status. However, Air Force, Navy, and DLA field activities documentation and reports issued to their respective headquarters components disclosed that only a sample of contracts were reviewed. As a result, unneeded and excess property remains on property-bearing contracts.

Not implemented.

Army comments. The Army nonconcurrent, stating that the review of property is a continual, ongoing, essential element of the property administration function.

APPENDIX B - IMPLEMENTATION OF EACH PROPERTY INITIATIVE (cont'd)

Navy comments. The Navy partially concurred and suggested that DoD regulations need revising to ensure that property administrators actively ensure that excess property is reported and dispositioned when long term contracts were completed or changed.

Air Force comments. The Air Force nonconcurred, stating that the initiative was implemented by intensifying the surveillance of the contractor's disposal of excess property and expanding the sample for special reviews.

DLA comments. DLA nonconcurred, stating that while the field activities were allowed to perform the review of contracts in conjunction with the annual system survey, the activities were still required to review all contracts. DLA stated that Headquarters inquiries to the field after our review indicated that a few contracts were inadvertently not reviewed at two locations.

Audit response. The Army, Air Force, and DLA nonconcurred; however, their comments confirm that all contracts were not reviewed as intended. We found examples of Army, Navy, and Air Force contracts that were not reviewed at Garrett AiResearch, Torrance, California, such as DAAE07-85-C-R128, N00019-85-C-0004, and F33615-87-C-3415.

Additionally, DLA reported to ASD(P&L) that initiative 22 was completed as of September 30, 1988. Further, DLA responded to the draft report that DLA made staff assistance visits and at no time did any office indicate that less than a 100-percent review was performed. However, we found a February 2, 1989, staff assistant visit report by Defense Contract Management Area Office-Reading, Pennsylvania, stating that in one of the system survey reports all contracts had not been reviewed.

The Navy alternative approach to meet the intent of the initiative by taking a proactive approach to identify and dispose of excess property was responsive. We have revised the report to reflect that the Army, Navy, and DLA tasked their activities to review all contracts. We also added that this guidance became confusing when it suggested that the review be accomplished on a sampling basis.

APPENDIX B - IMPLEMENTATION OF EACH PROPERTY INITIATIVE (cont'd)

Initiative 23 - Identify mission-essential Government plants and equipment; dispose of nonessential equipment in time-phased plan.

The Military Departments and DLA were to identify essential facilities (plant and equipment) proposed for retention and develop a time-phased action plan for disposing of nonessential facilities.

Audit results showed that the Military Departments and DLA identified facilities (plant and equipment) as active-essential, active-excess-to-ownership, inactive-essential, inactive-excess-to-need, and developed a time-phased action plan. The Navy and DLA did not report any nonessential plants. The Army and Air Force reported five inactive-excess-to-need GOCO plants (one Air Force and four Army). Disposal of these plants is in process.

Partially implemented.

Army comments. The Army nonconcurred, stating that the Army has promulgated an excess-to-ownership policy that promotes selling all unneeded property. Under this policy, the Army completed three sales and had four sales in process.

Air Force comments. The Air Force concurred, stating none of the GOCO plants were sold. Further, the primary reason was the absence of willing buyers. The strategy now being pursued involves sales negotiations at certain locations and leasing on an interim basis and long-term basis until final sale.

Audit response. Although the Army nonconcurred, their response states the disposal process has not been completed.

Initiative 24 - Sell essential GOCO plants where ownership is not required; update ASD(P&L) on plans.

The Military Departments and DLA were to identify GOCO plants where continued ownership by the DoD is no longer essential. When the plants are found to be essential for the operating contractors to continue performance of DoD programs, these facilities are candidates for negotiated sale by General Services Administration to the operating contractors.

The Military Departments identified GOCO plants where continued ownership by DoD was no longer essential. Further, the Military Departments identified 31 active-excess-to-ownership GOCO plants (5 Army, 16 Navy, and 10 Air Force). Also, action was taken to sell plants where ownership was no longer essential. Additionally, the Military Departments initiated lease agreement

APPENDIX B - IMPLEMENTATION OF EACH PROPERTY INITIATIVE (cont'd)

negotiations for unsuccessful sales. DLA reported no GOCO plants. However, our review found that the William Langer Jewel Bearing Plant was a DLA GOCO plant and should have been evaluated under this initiative.

Partially implemented.

Army and Navy comments. The Army and Navy nonconcurred. The Army and Navy cited many factors that prevent full implementation, such as contamination problems, environmental problems, the lack of interested buyers, and bankruptcy. Therefore, the Army and Navy were only moderately successful in selling plants. However, since the audit, the Navy forwarded to General Services Administration the documents for the sale of the Kodak plant at Rochester, New York, and vacated the Unisys plant at St. Paul, Minnesota.

Air Force comments. The Air Force concurred. See initiative 23 for the combined comments.

DLA comments. DLA nonconcurred, stating William Langer Jewel Bearing Plant was excluded because the stockpile manager and the director of DLA considered the plant to be essential.

Audit response. Although the Army and Navy nonconcurred, their comments confirm that the initiative was not fully implemented. DLA nonconcurred but their comments confirm that the William Langer Jewel Bearing Plant should have been reported to the Assistant Secretary of Defense as an essential facility, but where Government ownership is not required.

Initiative 25 - Eliminate unallowable profits/fees; recover those paid on open contracts.

The Military Departments and DLA were to identify any profits or fees paid to contractors on a facilities contract. In addition, the components were to identify general purpose plant equipment that has been acquired by contractors on other than a facilities contract and determine if such equipment should have been furnished under a no-fee facilities contract. Actions were to be taken to recover any improper profits or fees on open contracts whenever it could be accomplished legally.

The Military Departments and DLA reported full and partial compliance for this initiative to ASD(P&L). However, documentation was not available at the field activities that would indicate the status of this initiative. Specifically,

APPENDIX B - IMPLEMENTATION OF EACH PROPERTY INITIATIVE (cont'd)

working papers or schedules were not available that would indicate the number and type of contracts reviewed, the amount of profit or fee, and specific action taken to recover improper profits or fees. We could not determine if field-level activities of the Military Departments and DLA implemented this initiative.

Partially implemented.

Army comments. The Army nonconcurred, stating that the contracting activities were directed to attempt to identify all instances of payment of profit or fee, and recoup whenever it could be accomplished legally. The majority of the contractors refused to repay on the basis that the contracts did not specify unallowability of these profits/fee. The Army legal counsel advised that because the FAR did not state it was unallowable at that time further action was not appropriate. The Army recouped \$9,666 of \$987,000 identified.

Navy comments. The Navy nonconcurred and stated that the commands could only request a voluntary refund because there was no regulatory prohibition at the time.

Air Force comments. The Air Force nonconcurred, stating that field activities were tasked to review this issue and the activities reported that the action was complete. The Air Force maintains that no further action is required since the payment of profit/fee was allowed prior to the FAR change.

DLA comments. DLA nonconcurred, stating the Defense Supply Centers reported that they had completed a review of all open contracts and found no evidence of unallowable profit or fee being paid.

Audit response. Although the Military Departments and DLA nonconcurred, their comments indicate that varying degrees of action were taken to recover any improper profit and fee. Our review found little evidence to support the action reportedly taken by the field activities. However, in view of the FAR change and emphasis on current requirements, we have deleted the recommendation to implement this initiative.

Initiative 26 - Fully implement financial accounting.

The establishment of financial accounting systems for Government-owned property was to be fully implemented no later than October 1989 in accordance with the individual milestones established for each of the Military Departments and DLA by the Comptroller of the DoD.

APPENDIX B - IMPLEMENTATION OF EACH PROPERTY INITIATIVE (cont'd)

The Military Departments and DLA have not fully implemented this initiative. The Military Departments and DLA indicated to ASD(P&L) that their revised milestone for full implementation of the financial accounting system will be achieved during mid-1992.

Not implemented.

Army comments. The Army nonconcurred, stating that this is being reviewed by the OSD Corporate Information Management Task Group. Implementation of this initiative is not within the purview of the Army.

Navy comments. The Navy nonconcurred and stated that the Comptroller of the Department of Defense has not issued the policy. Also, the Navy stated that it has attempted to implement the initiative on its own.

Air Force comments. Air Force stated that its efforts to develop an implementation methodology were halted when all implementation responsibility was assumed by the OSD Corporate Information Management Task Group for GFM under the leadership of the Comptroller of the Department of Defense.

DLA comments. DLA nonconcurred stating that DoD has not determined the accounting system and scope of GFM control in order for full implementation of this initiative.

Audit response. Although the Military Departments and DLA nonconcurred, their comments state that a standard financial management accounting system for Government property was not implemented.

Initiative 27 - Complete property reporting via DD Form 1662.

The Military Departments and DLA were to take all necessary actions to ensure that the revised FAR 45.505-14, "Reports of Government Property," on industrial property reporting is fully operational by October 1987.

Audit results showed that the Military Departments and DLA implemented this initiative by reporting Government property on DD Form 1662, "DoD Property in the Custody of Contractors."

Our review showed only minor problems with the accuracy of the property reported on the DD Form 1662.

Implemented.

APPENDIX B - IMPLEMENTATION OF EACH PROPERTY INITIATIVE (cont'd)

Initiative 28 - Include standards for property management in managers' performance appraisals.

The initiative required that the performance appraisal agreements of personnel having significant property management responsibilities shall include appropriate evaluation standards.

Implemented.

Initiative 29 - Realign resources to staff property functions.

The Military Departments and DLA were directed to realign existing resources as necessary to provide for adequate staffing.

Audit results showed that resources were realigned as directed. For example, the Air Force performed a manpower survey to identify current requirements and projected the workload to accomplish the property initiatives.

Implemented.

Initiative 30 - Fully train property personnel and enhance their management and technical skills.

The Military Departments and DLA were to provide property personnel training to enhance their management and technical skills.

Audit results showed that the Navy, Air Force, and DLA provided property personnel training as required. However, the Army stated that full implementation was not achieved because of a lack of funds and nonavailability of space in property training courses.

Partially implemented.

Army comments. The Army nonconcurrent, stating that it is physically impossible for all property administrators to be "fully" trained at any one point in time. Availability of training funds and classroom quotas also limit ability to train property personnel.

APPENDIX B - IMPLEMENTATION OF EACH PROPERTY INITIATIVE (cont'd)

Audit response. Although the Army nonconcurred, their comments indicate that training for property administrators was still being implemented and that other actions were underway to ensure that training needs were met. Since training requirements are subject to current regulations, we have deleted the recommendation to implement this initiative.

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APPENDIX C - EFFECTIVENESS OF THE OFFICE OF THE SECRETARY OF DEFENSE MEMORANDUM

Office of the Secretary of Defense

The USD(A), issued a memorandum, "Government Property in the Possession of Defense Contractors," November 25, 1986. This memorandum directed the Secretaries of the Military Departments and the Directors of the Defense Agencies to dispose of old, obsolete, and nonessential Government property in the possession of contractors, and to bring to a halt the continuing increase in new property going to contractors. Required action included placing more discipline into implementation of existing policies and revising the FAR. The USD(A) directed immediate implementation of approximately 30 initiatives and directed that improvements be tracked through various forums, including the Defense Council on Integrity and Management Improvement. Additionally, policy guidance that may require reprogramming of funds should not deter actions because potential savings will more than offset the expense.

As detailed below, we evaluated the effectiveness of the Military Departments and DLA to task, track, and monitor the implementation of the property initiatives at the field level.

Army

The Deputy Assistant Secretary of the Army (Acquisition) tasked all 16 major commands by letter dated January 15, 1987, to implement the more stringent policies of the 1986 property initiatives. The letter stated that additional guidance and direction would be forthcoming. However, additional guidance was not provided until February 10, 1988. The Office of the Assistant Secretary of the Army issued Acquisition Letter 88-6 that tasked all commands to implement two initiatives and provided additional guidance relating to the Army Federal Acquisition Regulation Supplement changes. The two initiatives related to eliminating no-cost storage agreements and performing a one-time review (100 percent) of all property bearing contracts retained by the Army for administration. The acquisition letter also stated that the property initiatives and the letter applied to all types of contracts.

On January 2, 1987, the Department of the Army tasked the Army Materiel Command to initiate a review of all Army-owned inactive plants and equipment. The letter also directed that all inactive

APPENDIX C - EFFECTIVENESS OF THE OFFICE OF THE SECRETARY OF DEFENSE MEMORANDUM (cont'd)

property be disposed unless retention was justified. Additionally, the Deputy Assistant Secretary of the Army (Procurement) reported erroneously the status of the property initiatives implemented on the quarterly report to ASD(P&L). For example, the initiatives relating to review and disposal of ST/STE and review of property bearing contracts were not completed as reported.

Army Materiel Command. A February 19, 1987, Army Materiel Command letter tasked its nine subordinate commanders to implement the DoD property initiatives. The letter noted that implementation would require significant effort, such as realignment of resources, and that an action plan would be provided. Further, the Army Materiel Command recommended that the subordinate commands review their existing industrial plant equipment programs and begin collecting the information believed to be necessary to satisfy the required reviews.

Our review showed that the Army Materiel Command did not task or notify the commanders of the ammunition plants; the Mainz Army Depot, Germany; or other activities to implement the DoD property initiatives. Further, neither the Army nor the DLA tasked or notified the property administrator at the GOCO plant at Redstone Arsenal, Alabama, to implement the DoD property initiatives. The Army Missile Command is responsible for the GOCO plant at Redstone Arsenal, and DLA has responsibility over the property administrator. Also, the National Training Center and Fort Irwin, California, did not receive a copy of the Army Acquisition Letter 88-6 from the Army Forces Command until our January 1991 visit.

Navy

The Assistant Secretary of the Navy (Shipbuilding and Logistics), (now Research, Development, and Acquisition), issued 2 memorandums (January 21, 1987, and October 28, 1987) to 12 of the 17 Navy commands tasking those commands to implement the property initiatives and to track the progress of the implementation. Further, our review showed that subsequent directives to subordinate commands failed to fully task implementation of all applicable initiatives. Also, the Director, Contracts and Business Management, Office of the Assistant Secretary of the Navy (Shipbuilding and Logistics), reported erroneously on the quarterly report to ASD(P&L) the status of the property initiatives implemented. For example, the initiative relating to the elimination of no-cost storage agreements was not completed as reported.

APPENDIX C - EFFECTIVENESS OF THE OFFICE OF THE SECRETARY OF DEFENSE MEMORANDUM (cont'd)

Naval Air Systems Command. The Commander, Naval Air Systems Command, issued three letters (March 13, 1987, April 3, 1987, and June 22, 1988) to the commanding officers of naval plant representative offices, forwarding the January 21, 1987, Assistant Secretary of the Navy memorandum. The commander requested that only three initiatives be implemented as follows.

- o Review all contracts under the cognizance of the command and identify unneeded or excess Government property.
- o Create procedures to certify need for facilities.
- o Limit property transfers between contracts and receive adequate consideration, and do not transfer without specific authority.

Naval Sea Systems Command. The Commander, Naval Sea Systems Command, issued a letter February 20, 1987, to all supervisors of shipbuilding conversion and repair activities requesting a review of property-bearing contracts and disposition of property. Subsequent to our review, the commander issued a letter April 2, 1990, advising that our audit was in progress and tasking subordinate activities with additional initiatives.

Naval Supply Systems Command. The Commander, Naval Supply Systems Command, issued a letter November 30, 1987, that tasked its subordinate commands with partial implementation of the property initiatives.

Air Force

The Assistant Deputy Chief of Staff, Research, Development, and Acquisition, United States Air Force, assigned AFLC and AFSC specific tasks and action items in December 1986 to accomplish the property initiatives. Additionally, the Associate Deputy Assistant Secretary (Contracting), Office of the Assistant Secretary (Acquisition), erroneously reported the status of the property initiatives implemented on the quarterly report to ASD(P&L). For example, the initiatives relating to elimination of no-cost storage agreements and review of property bearing contracts were not completed as reported.

APPENDIX C - EFFECTIVENESS OF THE OFFICE OF THE SECRETARY OF DEFENSE MEMORANDUM (cont'd)

AFLC and AFSC. AFLC and AFSC developed written guidance for field activities to implement the initiatives. In addition, AFLC and AFSC included staff assistance visits and unit effectiveness inspections as part of their plan to follow up with the field activities to ensure compliance with the property initiatives. We conducted our review at various locations where Air Force contracts were administered.

We determined that despite the tasking and action items, the Air Force failed to fully implement the property initiatives. This occurred because AFLC and AFSC relied upon sampling methods, and business as usual, for implementation of the property initiatives. AFLC and AFSC did not provide the field activities with specific instructions on how to implement the initiatives. We also determined that AFLC and AFSC failed to adhere closely to their written plans. Specifically, AFLC and AFSC did not perform the staff assistance visits and unit effectiveness inspections to ensure that the field activities understood what was required under the property initiatives and to ensure that the initiatives were implemented.

We found instances of noncompliance and lack of full implementation of the property initiatives as a result of AFLC and AFSC not providing complete instructions to the field activities. For example, we determined that the contract administration offices relied upon the property administrator system survey as the basis for complying with the property initiative requiring a review of all property-bearing contracts. In our opinion, the Air Force system survey was not effective for accomplishing the initiative, which required a review of all property-bearing contracts and disposal of all old, obsolete, and nonessential property. The system survey is intended to test the effectiveness of the contractor's property control procedures and is not intended to provide coverage to comply with the initiatives.

Defense Logistics Agency

The Executive Director, Contract Management, DLA issued an incomplete and misleading memorandum February 4, 1987, to 9 of the 29 subordinate commands under DLA directing the commanders of Defense Contract Administration Service Regions (now Defense Contract Management Districts) to implement 4 initiatives as follows.

o Restrict unauthorized access to the DoD supply system for GFM.

APPENDIX C - EFFECTIVENESS OF THE OFFICE OF THE SECRETARY OF DEFENSE MEMORANDUM (cont'd)

- o Review all contracts with Government property and dispose of all unneeded/excess property.

- o Complete property reporting via DD Form 1662 with necessary computer hardware and software.

- o Realign existing resources to provide for adequate property management staffing.

The above tasking directed feedback no later than February 27, 1987. However, the memorandum confused the tasking by stating in part that if reviews had been conducted in response to previous audits/directives, then only four initiatives need be addressed. Also, the Chief, Production Policy Branch, Contracting Directorate, reported erroneously in the quarterly report to ASD(P&L) the status of the property initiatives implemented. For example, the initiatives relating to review and disposal of ST/STE, review of property bearing contracts, and elimination of storage and maintenance of nonessential General Reserve were not completed as reported.

Further, confusion was created when DLA issued a letter May 20, 1987, to all regions announcing the DoD property initiatives and specific actions to be taken. The letter stated that a review was to be made of all (emphasis added) contracts assigned for property administration in order to identify excess property. The letter also stated that the most efficient, practical approach to this task was to accomplish the review in conjunction with the annual property control system surveys (performed using statistical sampling techniques). The system survey was not effective for accomplishing the property initiatives, since all contracts would not have been reviewed as intended. However, DLA guidance established a date for completing the contract review.

The Chief, Production Division, Contracting Directorate, DLA issued an additional memorandum, May 29, 1987, to six supply centers with a copy of the November 1986 memorandum and implementing guidance and action items. The guidance reemphasized the objective of the 1986 memorandum.

After our review, the Chief, Contract Property Management Division, Contract Management Directorate, DLA issued a clarification memorandum August 24, 1990, to commanders of the Defense Contract Management Districts citing our audit and requiring the directors of the Contract Management Districts to implement 13 initiatives. DLA did not provide the districts with specific instructions on how to implement the initiatives and failed to establish a realistic milestone for completion.

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APPENDIX D - SAMPLING METHODOLOGY

The audit universe consisted of 4,255 DoD locations and covered the Military Departments and Defense Logistics Agency. To assess the implementation of the 1986 initiatives, 14 field activities with property valued at \$3.1 billion were statistically selected and reviewed for each initiative. The selection was facilitated using a table of random numbers, and is representative of the DoD universe of 4,255 locations.

Although the sample coverage was statistically designed to give good representation of the universe of DoD locations for attributes (number of cases implemented or not implemented), no attempt was made to project any monetary effect to the total universe because of the wide variation in dollar value of the government property in the hands of contractors.

The occurrence rate for, non-implementation of the 1986 initiatives was very high and, therefore, a small sample spread across the population was sufficient for attribute estimation.

Another point to keep in mind is that the auditors had tested a judgmental sample of six sites accounting for another \$6.6 billion in government property and found the same conditions existing at about the same rate as they found in the statistical sample. Between the two samples, the auditors covered \$9.7 billion of government property out of the \$64.4 billion universe (about 15 percent of the money just in the samples) although the number of sites covered was small.

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APPENDIX E - PRIOR AUDITS AND OTHER REVIEWS

| <u>Agency</u> | <u>Report No.</u> | <u>Date of Report</u> | <u>Report Title</u> |
|------------------------------------|-------------------------------------|-----------------------|---|
| Government Accounting Office | NSIAD-85-131 OSD Case No. 6787 | September 6, 1985 | DoD's Industrial Modernization Incentive Program: An Evolving Program Needing Policy and Management Improvement. |
| | NSIAD-86-109 OSD Case No. 6979 | June 19, 1986 | Government Equipment: Defense Should Further Reduce the Amount It Furnishes to Contractors. |
| | NSIAD-87-85BR OSD Case No. 7303 | April 9, 1987 | Material Management: Repair of Defective Government-Furnished Material. |
| | NSIAD-88-72 OSD Case No. 7462 | March 8, 1988 | Army Procurement: Contracting for Management and Operation of Government-Owned Ammunition Plants. |
| | NSIAD-88-98 OSD Case No. 7463 | March 11, 1988 | Internal Controls: Air Force Can Improve Controls Over Contractor Access to the DoD Supply System. |
| | NSIAD-88-99 OSD Case No. 7458 | March 18, 1988 | Internal Controls: Air Force Can Improve Controls Over Contractor Access to DoD Supply System. |
| | NSIAD-88-106 OSD Case No. 7111-A | April 20, 1988 | Internal Controls: Air Force Correcting Weaknesses in its Property Disposal Practices. |
| | NSIAD-88-151 OSD Case No. 7659 | May 26, 1988 | Government Property: DoD's Management of Property It Furnishes to Contractors. |
| | NSIAD-88-150 OSD Case No. 7558 | June 21, 1988 | Internal Controls: Controls Over Material Furnished to Navy Contractors Can Be Improved. |

APPENDIX E - PRIOR AUDITS AND OTHER REVIEWS (cont'd)

| <u>Agency</u> | <u>Report No.</u> | <u>Date of Report</u> | <u>Report Title</u> |
|---------------|-------------------|-----------------------|--|
| | AFMD-90-23 | February 23, 1990 | Financial Audit: Air Force Does Not Effectively Account for Billions of Dollars for Resources. |
| IG, DoD | 84-032 | February 2, 1984 | Government-Furnished Material at DoD Production Contractors. |
| | 85-056 | December 24, 1984 | Plant Equipment Packages. |
| | 86-123 | August 21, 1986 | Storage of Excess Special Tooling and Special Test Equipment. |
| | 87-099 | March 9, 1987 | Survey Report on the Audit of the DoD General Reserve. |
| | 87-124 | April 9, 1987 | Government-Furnished Property Provided by the National Security Agency. |
| | 87-140 | May 6, 1987 | Audit of Fees Charged for the Acquisition of Government-Owned Contractor-Operated Facilities. |
| | 88-034 | October 15, 1987 | Acquisition of Special Tooling and Special Test Equipment. |
| | 88-099 | March 10, 1988 | Defense Logistics Agency Decision to Retain Industrial Plant Equipment Operations In-House. |
| | 88-143 | May 6, 1988 | Administration of Other Plant Equipment by Washington, D.C., Area Contractors. |
| | 89-036 | December 1, 1988 | Contractor Repair Programs. |

APPENDIX E - PRIOR AUDITS AND OTHER REVIEWS (cont'd)

| | | | |
|-------------------|-----------|-------------------|---|
| | 89-087 | June 30, 1989 | Contractor Rental of Government Real Property. |
| | 89-107 | September 8, 1989 | The DoD Industrial Modernization Incentives Program. |
| | 90-010 | November 21, 1989 | Summary Report on the Audits of Contract Terminations. |
| | 90-043 | March 2, 1990 | Plant Clearance Action on Government-Owned Property in the Possession of Defense Contractors. |
| | 90-060 | April 18, 1990 | Government-Furnished Property Administration at the Defense Nuclear Agency. |
| Army Audit Agency | EC 87-4 | March 16, 1987 | Property Management, U.S. Army Garrison, Arlington Hall Station, Arlington, VA. |
| | HQ 87-202 | May 18, 1987 | Management of Plant Equipment Packages. |
| | WE 88-3 | November 6, 1987 | Property Accountability, Tripler Army Medical Center, Tripler Army Medical Center, HI. |
| | NE 89-1 | November 7, 1988 | Acquisition and Contract Administration, U.S. Army Troop Support Command, Natick Procurement Division Natick, Mass. |
| | EC 89-3 | February 28, 1989 | Property Accountability Fort Monroe, Fort Monroe, VA. |
| | EC 89-600 | March 1, 1989 | Management of Equipment in Army Laboratories, U.S. Army Materiel Command. |

APPENDIX E - PRIOR AUDITS AND OTHER REVIEWS (cont'd)

| | | | |
|------------------------|--------------------|-------------------|---|
| | NW 89-204 | September 5, 1989 | Quality of Materiel, U.S. Army Aviation Systems Command, St. Louis, MO. |
| | SW 90-1 | December 4, 1990 | Aviation Intermediate Maintenance Support, III Corps and Fort Hood, Fort Hood, TX. |
| | EU 90-3 | February 22, 1990 | Production and Information Processing Equipment, Mainz Army Depot, Mainz, West Germany. |
| Naval Audit Service | 7541/B30066 | October 9, 1987 | Government-Furnished Material, Supply, and Research and Development Contracts at David Taylor Naval Ship Research and Development Center, Bethesda, MD. |
| | T47057/ 87-0426 | April 25, 1990 | Government-Owned Material to Support Navy Shipbuilding and Repair Contracts Administered by Supervisors of Shipbuilding, Conversion and Repair, USN. |
| Air Force Audit Agency | 5126113 | January 24, 1986 | Internal Controls Within Systems For Managing Materiel Furnished to Maintenance Contractors. |
| | 6076410 | January 14, 1987 | Government-Furnished Material at Contractor Facilities. |
| | 8076414 | December 8, 1988 | Followup Audit - Government-Furnished Material at Contractor Facilities. |
| | 9066411 | October 30, 1989 | Contractor Use of Government-Furnished Equipment for Commercial Work. |

APPENDIX E - PRIOR AUDITS AND OTHER REVIEWS (cont'd)

| | | |
|--------|----------------|---|
| 415033 | April 27, 1990 | Management of Government-Furnished Material Provided to Contractors, McClellan AFB, CA. |
| 415046 | August 8, 1990 | Management of Special Tooling and Special Test Equipment (ST/STE), McClellan AFB, CA. |

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APPENDIX F - NO-COST STORAGE AGREEMENT

MAR 02 1988 MAILING DATE 1988 FEB 26

| | | | |
|--|-----------------------------|---|---|
| AMENDMENT OF SOLICITATION/MODIFICATION OF CONTRACT | | CONTRACT NO. 2008 | PAGE OF PAGES 1 2 |
| DEF. INITIATOR XTA/NSM | | | |
| AMENDMENT/MODIFICATION NO. FO4606-85-C-0415-PO0001 | EFFECTIVE DATE 88 MAR 01 | REQUISIT. OR PURCHASE REQ. NO. | PROJECT NO. (if applicable) NSN: SERVICES |
| ISSUED BY DIRECTORATE OF CONTRACTING & MFG. SACRAMENTO AIR LOGISTICS CENTER MCCELLELLAN AFB CA 95652-9320 | CODE FD2040 | ADMINISTERED BY (if other than item 8 CODE) | CODE S4402A |
| BUYER: MURCHISON/PMVEC/4.H/(218)612-5482 | | DCASMA DALLAS 1200 MAIN ST PO BOX 50500 DALLAS TX 75250-5050 | SCO: C |
| NAME AND ADDRESS OF CONTRACTOR (OR PER. BUS. SUCCE. COUNTY, STATE AND ZIP CODE) CROW W PAT FORGING INC SUB OF TIC INVESTMENT CORP 300 LUXTON ST PO BOX 1720 FT WORTH TX 76101 DUNS NO _____ | | BA. AMENDMENT OF SOLICITATION NO. DB. DATED (SEE ITEM 1A) | IA. MODIFICATION OF CONTRACT/ORDER NO. FO4606-85-C-0415 TB. DATED (SEE ITEM 1B) |
| CODE 84790 | FACILITY CODE | 85 APR 15 | |
| 11. THIS ITEM ONLY APPLIES TO AMENDMENTS OF SOLICITATIONS | | | |
| <input type="checkbox"/> The above numbered solicitation is amended as set forth in item 14. The hour and date specified for receipt of offers <input checked="" type="checkbox"/> is extended. <input type="checkbox"/> is not extended. Offers must acknowledge receipt of this amendment prior to the hour and date specified in the solicitation or as amended, by one of the following methods: (a) By completing items 8 and 14, and returning <u>1</u> copies of the amendment; (b) By acknowledging receipt of this amendment on each copy of the offer submitted; or (c) By separate letter or telegram which includes a reference to the solicitation and amendment numbers. FAILURE OF YOUR ACKNOWLEDGMENT TO BE RECEIVED AT THE PLACE DESIGNATED FOR THE RECEIPT OF OFFERS PRIOR TO THE HOUR AND DATE SPECIFIED MAY RESULT IN REJECTION OF YOUR OFFER. If by virtue of this amendment you desire to change an offer already submitted, such change may be made by telegram or letter, provided each telegram or letter makes reference to the solicitation and this amendment, and is received prior to the opening hour and date specified. | | | |
| 12. ACCOUNTING AND APPROPRIATION DATA (if required) NONE | | | |
| 13. THIS ITEM APPLIES ONLY TO MODIFICATION OF CONTRACTS/ORDERS, IT MODIFIES THE CONTRACT/ORDER NO. AS DESCRIBED IN ITEM 14. | | | |
| (a) THIS CHANGE ORDER IS ISSUED PURSUANT TO (Specify authority) THE CHANGES SET FORTH IN ITEM 14 ARE MADE IN THE CONTRACT ORDER NO. IN ITEM 10A. (b) THE ABOVE NUMBERED CONTRACT/ORDER IS MODIFIED TO REFLECT THE ADMINISTRATIVE CHANGES (such as changes in paying office, appropriation data, etc.) SET FORTH IN ITEM 14, PURSUANT TO THE AUTHORITY OF FAR 43.103(b). (c) THIS SUPPLEMENTAL AGREEMENT IS ENTERED INTO PURSUANT TO AUTHORITY OF PARAGRAPH 3 (d) OTHER (Specify type of modification and authority) | | | |
| E. IMPORTANT: Contractor <input type="checkbox"/> is not, <input checked="" type="checkbox"/> is required to sign this document and return <u>1</u> copies to the issuing office. | | | |
| 14. DESCRIPTION OF AMENDMENT/MODIFICATION (Organized by UCF section headings, including solicitation/contract subject matter where feasible) SEE ATTACHED PAGE(S) | | | |
| Except as provided herein, all terms and conditions of the document referenced in item 8A or 10A, as heretofore changed, remains unchanged and in full force and effect. | | | |
| 15A. NAME AND TITLE OF SIGNER (Type or print) LEE CHAMBERS, V.P. FINANCE | | 15B. NAME AND TITLE OF CONTRACTING OFFICER (Type or print) CRAIG B. MURCHISON CONTRACTING OFFICER | |
| 15C. CONTRACTOR/OFFICER <i>Lee Chambers</i> Signature of person authorized to sign | 15D. DATE SIGNED 2-16-88 | 15E. UNITED STATES OF AMERICA BY <i>Craig B. Murchison</i> Contracting Officer | 15F. DATE SIGNED 25 FEB 1988 |

NSN 7540-01-102-0070
PREVIOUS EDITION UNUSABLE

30-108

STANDARD FORM 30 REV. 10-82
PRESCRIBED BY GSA
FAR 48 CFR 53.202

APPENDIX F - NO-COST STORAGE AGREEMENT (cont'd)

PAGE 2 OF 2
AMENDMENT/MODIFICATION NR F04606-85-C-0415-PC0001

THE PURPOSE OF THE MODIFICATION IS TO EXTEND THE PERIOD OF PERFORMANCE OF THE AGREEMENT AND TO CHANGE THE TITLE OF THE DOCUMENT.

1. THE TITLE OF THE AGREEMENT IS HEREBY CHANGED:
FROM: NO COST STORAGE AGREEMENT
TO: F-111 FORGING TOOL STORAGE AGREEMENT
2. PARAGRAPH 3. PERIOD OF PERFORMANCE.
THE PERFORMANCE PERIOD FOR SERVICES IS HEREBY EXTENDED.
FROM: 88 MAR 01
TO: 91 FEB 28
3. ALL ELSE REMAINS THE SAME.

APPENDIX E - NO-COST STORAGE AGREEMENT (cont'd)

AGREEMENT NUMBER FO4606-85-C-0418

NO COST STORAGE AGREEMENT

UNITED STATES AIR FORCE

BUYER: MURCHISON/PWFC/4JM/(9161643-5481

CONTRACTOR: W PAT CROW FORGINGS INC.

CONTRACTOR'S ADDRESS: P O BOX 1720
200 LUTON STREET
FORT WORTH, TX 76101

PROPERTY COVERED: F-111 SPECIAL TOOLING

LOCATION OF PROPERTY: FORT WORTH, TX 76101

The DCASMA DALLAS at 500 SOUTH ERVAY STREET, DALLAS, TX 75201 is designated as the office having overall administrative responsibility for this agreement.

This agreement is made between THE UNITED STATES OF AMERICA, hereinafter called "the Government," and W PAT CROW FORGINGS INC. as follows:

Whereas, the Contractor owns certain property described herein and
whereas, the Government has determined that such property shall be properly prepared for storage and stored for possible future use

Now, therefore, the parties hereto agree as follows:

APPENDIX F - NO-COST STORAGE AGREEMENT (cont'd)

FO4606-85-C-0418
Page 2 of 3

1. TITLE TO PROPERTY

The Government agrees that the Contractor has title to said property free and clear of any and all liens and encumbrances. Said property is listed and described in Attachment A attached hereto and has an estimated unknown dollar value.

2. SERVICES

The Contractor agrees to perform all necessary handling, preservation, and storage of property without cost to the Government (except as otherwise provided herein). The work will be executed by the Contractor at the Contractor's own expense, conforming to standard commercial practice. The Contractor will permit the withdrawal for use and subsequent return to storage of such items as are requested by the Contracting Officer at no additional cost.

3. PERIOD OF PERFORMANCE

Performance of the services shall start on 85 MAR 01 and shall complete not later than 88 FEB 28, but may be extended annually by mutual agreement between the contracting parties.

4. OPEN STORAGE PROVISION

Items of property, allocable to any or all of the Contractor's existing or subsequent F-111 contract or contracts, and available for storage as excess by reason of changes, terminations, expirations, or completions of USAF F-111 contracts, shall be stored under the terms of this agreement if, as to these items, the Contractor agrees to storage under this agreement. The Contractor will submit for approval of the Contracting Officer a list of such items of property to be incorporated within this agreement. This list will be exclusive of items used and returned by the Contractor under the "Right of Use" Clause. Upon approval by the Contracting Officer, the list will be embodied within the agreement as a consecutively lettered exhibit. Where submission of a list would be uneconomical, the Contractor may submit a description of such property, which description may take the form of appropriate references to listings contained in accountable property records.

5. CONSIDERATION

Performance of the work to be accomplished will be at no cost to the Government, except as provided herein. No charge for work performed under this agreement will be recovered as an indirect charge to other Government work unless expressly approved by the Contracting Officer.

6. RIGHT OF USE

The Contractor hereby acknowledges the government has the right of use on all government contracts whether from the prime contractor or its subcontractors. The Contractor shall make no charge under this contract for use; cost of removing, preserving, repackaging, returning to storage; or modifying property in performance of contracts with the Government.

7. DISPOSITION OF PROPERTY

The Contractor will not dispose of any property covered by this contract during the time of the contract nor upon completion of the contract without written consent of the Material Utilization Control Office (MUCO) ST/STE Control Officer thru the SM-ALC Procurement Contracting Officer (PCO). The Contractor also agrees to make no charge to the Government for approved disposal actions.

APPENDIX G - ACTIVITIES VISITED OR CONTACTED

Office of the Secretary of Defense

Office of the Under Secretary of Defense for Acquisition,
Washington, DC
Assistant Secretary of Defense (Production and Logistics),
Washington, DC
Director of Defense Procurement, Washington, DC

Department of the Army

Office of the Assistant Secretary of the Army (Research
Development and Acquisition), Washington, DC
Headquarters, Army Materiel Command, Alexandria, VA
Army Armament, Munitions, and Chemical Command, Rock Island, IL
Hawthorne Army Ammunition Plant, Hawthorne, NV
Kansas Army Ammunition Plant, Parsons, KS
Newport Army Ammunition Plant, Newport, IN
Headquarters, Army Aviation Systems Command, St. Louis, MO
Headquarters, Army Missile Command, Redstone Arsenal, AL
Depot System Command, Letterkenny Army Depot, Chambersburg, PA
Mainz Army Depot, Mainz, Germany
U.S. Army Europe Contracting Center, Frankfurt, Germany
U.S. Army Materiel Command Europe, Seckenheim, Germany
National Training Center, Fort Irwin, CA

Department of the Navy

Office of the Assistant Secretary of the Navy (Research,
Development, and Acquisition), Washington, DC
Headquarters, Naval Air Systems Command, Arlington, VA
Headquarters, Naval Sea Systems Command, Arlington, VA
Headquarters, Naval Facilities Engineering Command, Alexandria,
VA
Naval Supply Systems Command, Arlington, VA
Naval Accounting and Finance Center, Arlington, VA
Naval Ships Parts Control Center, Mechanicsburg, PA
Supervisor of Shipbuilding, Conversion and Repair, Groton, CT
Supervisor of Shipbuilding, Conversion and Repair, Quonset
Point, RI

Department of the Air Force

Office of the Assistant Secretary of the Air Force (Acquisition),
Washington, DC
Headquarters, Air Force Logistics Command, Wright-Patterson Air
Force Base, OH
Oklahoma City Air Logistics Center, Tinker Air Force Base, OK
San Antonio Air Logistics Center, Kelly Air Force Base, TX
Sacramento Air Logistics Center, McClellan Air Force Base, CA

APPENDIX G - ACTIVITIES VISITED OR CONTACTED (cont'd)

Headquarters, Air Force Systems Command, Andrews Air Force Base,
MD
Air Force Contract Maintenance Center, Wright-Patterson Air Force
Base, OH
Aeronautical Systems Division, Wright-Patterson Air Force Base,
OH
Air Force Contract Management Division, Kirtland Air Force Base,
NM
Western Space and Missile Command, Vandenberg Air Force Base, CA
Air Force Production Flight Test Installation, Palmdale, CA
Air Force Institute of Technology, Air University,
Wright-Patterson Air Force Base, OH

Defense Agencies

Headquarters, Defense Contract Audit Agency, Alexandria, VA
Headquarters, Defense Logistics Agency, Alexandria, VA
Defense Electronics Supply Center, Dayton, OH
Defense General Supply Center, Richmond, VA
Defense Contract Management Command, Alexandria, VA
Defense Contract Management District South, Atlanta, GA
Defense Contract Management District Northeast, Boston, MA
Defense Contract Management Area Operation, Birmingham, AL
Defense Contract Management Area Operation, El Segundo, CA
Defense Contract Management Area Operation, Hartford, CT
Defense Contract Management Area Operation, St. Louis, MO
Defense Contract Management Area Operation, New Orleans, LA
Defense Contract Management Area Operation, Garden City, NJ
Defense Contract Management Area Operation, Reading, PA
Defense Contract Management Area Operation, Dallas, TX
Defense Plant Representative Office, Redstone, AL
Defense Plant Representative Office, Rockwell International,
Los Angeles, Palmdale, CA
Defense Plant Representative Office - General Dynamics
San Diego, CA
Defense Plant Representative Office - Garrett AiResearch,
Torrance, CA
Defense Plant Representative Office - GE Aircraft Engines,
Cincinnati, OH
Defense Plant Representative Office - McDonnell Douglas
Corporation, St. Louis, MO
Defense Plant Representative Office - UNISYS Corporation,
Great Neck, NY
Defense Plant Representative Office - LTV, Dallas, TX
Defense Plant Representative Office - IBM, Manassas, VA
Defense Plant Representative Office - Grumman Aerospace
Corporation, Bethpage, NY
Defense Plant Representative Office Douglas Aircraft
Company, Long Beach, CA

APPENDIX G - ACTIVITIES VISITED OR CONTACTED (cont'd)

Defense Plant Representative Office - Lockheed Aeronautical
Systems, Marietta, GA
Defense Industrial Plant Equipment Center, Memphis, TN
Defense Industrial Plant Equipment Center, Mechanicsburg, PA
Defense Industrial Plant Equipment Center, Stockton, CA
Defense Industrial Plant Equipment Facility, Atchison, KS
Headquarters, Defense Communication Agency, Arlington, VA
Headquarters, Defense Mapping Agency, Fairfax, VA
Headquarters, Defense Nuclear Agency, Alexandria, VA
Headquarters, National Security Agency, Fort George Meade, MD

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APPENDIX H - REPORT DISTRIBUTION

Office of the Secretary of Defense

Under Secretary of Defense (Acquisition)
Assistant Secretary of Defense (Production and Logistics)
Director of Defense Procurement
Comptroller of the Department of Defense
Director, Defense Acquisition Regulatory Council

Department of the Army

Secretary of the Army
Inspector General, Department of the Army (Operations Division)
Auditor General, Army Audit Agency

Department of the Navy

Secretary of the Navy
Assistant Secretary of the Navy (Financial Management)
Comptroller of the Navy
Auditor General, Naval Audit Service
Headquarters, Naval Sea Systems Command
Headquarters, Naval Air Systems Command

Department of the Air Force

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

Other Defense Activities

Director, Defense Contract Audit Agency
Director, Defense Logistics Agency

Non-DoD Federal Organizations and Individuals

Office of Management and Budget
U.S. General Accounting Office, National Security and
International Affairs Division, Technical Information Center

APPENDIX H - REPORT DISTRIBUTION (cont'd)

Non-DoD Federal Organizations and Individuals (cont'd)

The Honorable Nancy Johnson, United States House of Representatives

Chairman and Ranking Minority Member of the following Congressional Committees and Subcommittees:

Senate Subcommittee on Defense, Committee on Appropriations
Senate Committee on Armed Services
Senate Committee on Governmental Affairs
House Committee on Appropriations
House Subcommittee on Defense, Committee on Appropriations
House Committee on Armed Services
House Committee on Government Operations
House Subcommittee on Legislation and National Security,
Committee on Government Operations

PART IV - MANAGEMENT COMMENTS

Assistant Secretary of Defense (Production and Logistics)

Department of the Army

Department of the Navy

Department of the Air Force

Defense Logistics Agency

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MANAGEMENT COMMENTS - ASSISTANT SECRETARY OF DEFENSE
(PRODUCTION AND LOGISTICS)

Final Report
Reference



PRODUCTION AND
LOGISTICS

ASSISTANT SECRETARY OF DEFENSE
WASHINGTON DC 20301-6000

June 19, 1992

MEMORANDUM FOR ASSISTANT INSPECTOR GENERAL FOR AUDITING, OFFICE OF
THE INSPECTOR GENERAL, DEPARTMENT OF DEFENSE

SUBJECT: Draft Audit Report on Government Property in the
Possession of Contractors (Project No. OCA-0047)

Thank you for the opportunity to review the subject draft audit report, dated April 10, 1992. We cannot concur with the report or its conclusions, because the report fails to achieve its own objectives and is of little value to us as the requestor. Furthermore, we do not concur with the release of this draft report as a final report.

As the draft report states, this audit was performed at the request of the Office of the Assistant Secretary of Defense (Production and Logistics) (ASD(P&L)). As you have agreed, the intent of our request to the DoD IG was to obtain an audit that would provide data on how well each of the USD(A)'s 1986 property initiatives was and was not implemented. We referred to our objectives as a need for a "Good News/Bad News" report in numerous discussions with your auditors. However, while the report reflects that intent in its first objective (page 2, "evaluate the implementation of property initiatives outlined in the November 1986 Under Secretary of Defense for Acquisition memorandum") there are no data on which either you or we can base any evaluations. Useful data would have aided our management oversight responsibilities by permitting us to concentrate needed corrective actions toward the areas having a low percentage of implementation. Since your draft report does not provide quantifiable data, it cannot achieve its objective of evaluating implementation of our initiatives. It is therefore of little use to OSD or the DoD Components who manage the contract property program.

Your draft report states that "the sample size was relatively small and no attempt was made to project any statistics to the total universe." We agree that your review of 14 out of 4,255 locations is too small of a sample to determine if universal implementation or non-implementation occurred. However, your draft report does just that. It extrapolates from a very small sample to conclude that

1

**MANAGEMENT COMMENTS - ASSISTANT SECRETARY OF DEFENSE
(PRODUCTION AND LOGISTICS) (cont'd)**

Final Report
Reference

systemic problems exist with the implementation of the USD(A)'s 1986 contract property initiatives. This gives us two problems: (1) an inaccurate and misleading draft report, and (2) a draft report, which we requested, that cannot be used to assist our management actions. Since we have data that contradicts your report and/or your data do not support the implied systemic problems, we cannot concur with the report's findings.

The only recommendation to ASD(P&L) is to monitor compliance and report to the Under Secretary of Defense for Acquisition (USD(A)) on Military Department and Defense Logistics Agency (DLA) implementation of the property initiatives. We fully agree with the need to monitor compliance with contract property policies and keep the USD(A) informed of our progress. However, we do not concur with this recommendation, as presented in your draft report. Our reason is that you are recommending that the Services and DLA fully implement the property initiatives as written in a USD(A) 1986 memorandum. The recommendation is inappropriate for four reasons: (1) the draft report does not provide adequate data to show that a systemic problem exists with non-implementation of the 1986 policies; (2) the 1986 policy changes have been incorporated into the FAR, DFARS, and a contract property administration manual; (3) additional contract property policies have been issued since 1986 that require implementation; and (4) requiring the Services/DLA to recreate actions on the 1986 initiatives, without having provided adequate implementation/non-implementation data for each initiative, is a non-value added activity.

We recommend that this draft report not be issued as a final report because, in its present state, it has no value to the contract property program managers. Page 4 of your draft report states, "We did not attempt to perform all inclusive reviews at each activity for each property initiative because each initiative would have been a separate audit." It appears the scope of our audit request was too large and should have been terminated. Therefore, as an alternative approach we recommend this draft audit be restructured to cover contract property policies as they exist in 1992. The start point for this audit (or audits) should be DoD Instruction 4161.2, dated December 31, 1991. This DoDI requires DoD Components to ensure compliance with the Government property policies and procedures in the FAR, DFARS, and the DoD Manual for the Performance of Contract Property Administration, DoD 4161.2-M. Using the information you have collected and inputs you will receive from the Services/DLA in response to this draft report, it is recommended you work with this office to develop audit plans which would be of value for oversight of this important program based on policies that exist in 1992.

Recommendation
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**MANAGEMENT COMMENTS - ASSISTANT SECRETARY OF DEFENSE
(PRODUCTION AND LOGISTICS) (cont'd)**

In addition we will fully monitor DoD Component implementation of contract property policies as baselined in 1992 and keep the USD(A) apprised of our progress. This will include ensuring there is compliance with all contract property policies, and not be limited to the 1986 initiatives. This proactive and forward looking approach will be in lieu of requesting the Services/DLA to expend their limited resources to reconstruct why things were not accomplished in the past.

Our action officer for government-owned contract property and this draft audit report is Jim Kordes, 697-4186.



DAVID J BERTEAU
PRINCIPAL DEPUTY ASD (PSL)

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MANAGEMENT COMMENTS - DEPARTMENT OF THE ARMY

Final Report
Reference



DEPARTMENT OF THE ARMY
OFFICE OF THE ASSISTANT SECRETARY
U.S. ARMY CONTRACTING SUPPORT AGENCY
8109 LEESBURG PIKE
FALLS CHURCH, VIRGINIA 22041 3201



REPLY TO
ATTENTION OF
SFRD-KP

9 JUN 1992

MEMORANDUM FOR INSPECTOR GENERAL, DEPARTMENT OF DEFENSE
(AUDITING), 400 ARMY NAVY DRIVE, ARLINGTON,
VIRGINIA 22202-2884

SUBJECT: Draft Audit Report on Government Property in the
Possession of Contractors (Project No. OCA-0047)

1. After thorough review and analysis of the subject draft, we find we must take exception to the methodology used in the conduct of the audit. We do not think that valid conclusions can be drawn from a sample of 14 out of 4255 DOD locations. Although Appendix D of the draft report states "...the sample size was small and no attempt was made to project any statistics to the total universe," the report does, indeed, base conclusions and recommendations on findings at these 14 locations. In fact, it appears that a single instance of perceived noncompliance was deemed sufficient to render the conclusion that "the Army" had not complied with that particular initiative.

2. We do not agree with the recommendations in the report addressed to the Army:

a. Recommendation 1. Nonconcur that the Army should task commands and field activities to fully implement 16 of the 30 property initiatives from 1986 that the DODIG considers not fully implemented. Initiatives that were pertinent and valid six years ago are not necessarily valid or warranting expenditure of resources today. A better idea would be to develop property issues the Army feels need attention in the current environment, task them and monitor their progress, as well as to assure compliance with the FAR/DFARS/APARS and DOD 4161.2M.

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b. Recommendation 2a. Nonconcur that the Army should develop procedures for conducting inspections of contracting officers, contract administrative officers, and property administrators to verify property management tasks are performed. Property management, as a part of the contracting process, is subject to being monitored through procurement management reviews, DA Inspector General inspections, Army Audit Agency review, etc. No additional "procedures" are required.

Deleted.

MANAGEMENT COMMENTS - DEPARTMENT OF THE ARMY (cont'd)

Final Report
Reference

SFRD-KP
SUBJECT: Draft Audit Report on Government Property in the
Possession of Contractors (Project No. OCA-0047)

c. Recommendation 2b. Nonconcur that the Army "track the implementation" of the 1986 property initiatives by requiring reports from field activities and by maintaining documentation available for audit. We do not see value in tracking the 1986 initiatives per se, especially those that are obsolete.

Deleted.

d. Recommendation 2c. Nonconcur that the Assistant Secretary of the Army (Research, Development and Acquisition) "initiate disciplinary action against officials who misrepresented the status of the property initiatives to the Office of the Assistant Secretary of Defense (Production and Logistics)." The Army knowingly made no misrepresentations to OSD on the status of property initiatives. We consider the 1986 initiatives to be substantially implemented. We take strong exception to the excruciatingly narrow interpretation that the DODIG has apparently taken, i.e., that if one individual at an Army field activity had not implemented an initiative, that initiative had not been implemented by the Army. We also do not agree that lack of "auditable" data (e.g., a list of all contracts reviewed) warrants the conclusion that an initiative was not implemented and, therefore, our reporting to OASD was erroneous.

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3. We also feel that the recommendation addressed to the Assistant Secretary of Defense (Production and Logistics) to monitor compliance and report to the USD(A) on the Military Departments' implementation of the 1986 property initiatives is inappropriate and would be a waste of resources better spent on concentrating on current, updated property issues and compliance with acquisition regulations and DOD 4161.2M.

Deleted.

4. Additional specific comments on the draft report are enclosed.

5. The point of contact for this action is Rachel Lilley, SFRD-KP, 756-7572.

3 Enclosures


J. Bruce King
Acting Director

CP:
SARD-DER, ATTN: Ms. Willey
SAIG-PA, ATTN: Ms. Flannagan

MANAGEMENT COMMENTS - DEPARTMENT OF THE ARMY (cont'd)

Final Report
Reference

Army Comments on Draft Audit Report on Government Property
in the Possession of Contractors (Project No. OCA-0047)

1. Executive Summary, page 11, second paragraph, last three lines: Statement that "reliable data on the amount of Government property in the possession of contractors were not maintained" is not consistent with statement on first paragraph of page 18 of the report which says: "Review showed minor reporting problems at selected activities..." (Appendix B, Initiative 27, also indicates "only minor problems with the accuracy" of the DD 1662 report.)
2. Page 6, first paragraph, lines 4 through 8: Report says "lack of an effective tracking and monitoring system resulted in noncompliance by the subordinate commands and field activities." Tracking and monitoring do not cause compliance but measure compliance. Also, this characterization of instances of the field activities not taking action on initiatives as being "noncompliance" with policy set/directions given by the Military Departments is not consistent with allegations elsewhere in report that view field activities' failure to take action on initiatives as "non-implementation" of the initiatives.
3. Page 9, lines 9 through 12: The statement that the Military Departments did not accurately report on the field activities' status of implementation of the initiative to the Office of the ASD(P&L) is not supported by the findings of the audit. In most cases, the conclusion that an initiative was not implemented by "field activities" appears to have been based on a single instance of noncompliance at a field activity. To the best of our knowledge, in no case did the DODIG find that all Army field activities visited (fewer than six sites) had failed to implement an initiative.
4. Page 9, last six lines: This recitation of the results of the perceived failure of the Military Departments to take appropriate implementation actions is a list of overly broad generalizations not borne out by the specific findings of the report. What the DODIG did find was that there was no evidence that all contracts had been reviewed for retention or disposal of property; that not all "no cost" storage agreements had been eliminated by the Navy, Air Force and Defense Logistics Agency (DLA); and that excess levels of industrial plant equipment were not removed from storage in all cases. The last item on reliable data on the amount of Government property in the possession of contractors not being maintained appears to be completely unsupported. Appendix B indicates that Initiative 27

Enclosure 1

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MANAGEMENT COMMENTS - DEPARTMENT OF THE ARMY (cont'd)

Final Report
Reference

(Complete Property Reporting Via DD Form 1662) has been implemented by the Military Departments and DLA, with "only minor problems with accuracy of the property reported on the DD 1662."

6
5. Page 11, last sentence: The statement that "the Headquarters' components failed to ensure compliance with existing regulations" is overly broad and unsupported. The report cites no specific examples of noncompliance with particular paragraphs of the FAR and DFARS. Further, the conclusion that the Military Departments "failed to adequately track and monitor implementation of the initiatives" appears to be based on findings of isolated noncompliance with some initiatives at one or a few field activities or that the Headquarters did not have a master list showing thousands of contracts that had been reviewed by field activities.

6
6. Page 12, last paragraph, last sentence: The statement that "activities were expected to achieve the review on only a sample basis" is completely erroneous. All Army contracting offices were furnished (through contracting channels) with the OASD November 1986 initiatives via Acquisition Letter (AL) 88-6. In addition, the AL clearly stated at Item VI on page 2, "Contracting Officers shall take immediate action to review all contracts involving Government property when administration has been retained. The purpose of this review is ... (2) to ensure that unneeded property is removed from contractor possession and returned to the Government."

7
7. Page 13, first paragraph, lines 3 and 4: We do not understand the statement that "Headquarters components did not provide complete guidance...." Our instructions in AL 88-6 were specific regarding the review of property-bearing contracts. Furthermore, an essential element of normal property administration is a continual review of the contract (by contractor and Government) to identify unneeded property.

7
Revised -
8. Page 13, last paragraph: This paragraph contradicts itself. It faults DOD for not taking action to dispose of GOCOs but clearly cites among the reasons for non-disposal "problems associated with hazardous waste, the conversion to non-military use, the lack of interested buyers...."

9
9. Page 17, first paragraph, lines 4 through 6: "The statement that "The Army is not fully monitoring contractor requisitions and documents to determine whether the items are authorized" is not supported by any specific details.

MANAGEMENT COMMENTS - DEPARTMENT OF THE ARMY (cont'd)

Final Report
Reference

10. Page 17, second paragraph, second sentence: The DODIG faults the Military Departments for a lack of documentation to show in great detail every contract which had been reviewed for unallowable profit and fee, etc. We would not normally ask AMC or HCAs to produce minute detail if they reported that contracts had been reviewed, the amount of unallowable costs identified and the amount recouped and general reasons for non-recoupment. (See our comments on Initiative 25 in Appendix B.)

9

11. Page 18, second paragraph: The statements that the Army never implemented Initiative 6 (Incentives for Contractor Investment) and that Army procuring activities did not evaluate the use of available contracting incentives to encourage greater investment is erroneous and unsupported by any detail. (See our comments on Initiative 6 in Appendix B.)

9

12. Page 18, last paragraph, last sentence: We do not know the basis for the statement that the Army did not achieve the desired training for property personnel outlined in Initiative 30 because of lack of funds and available training allocations, but such only indicates the Army was/is being truthful rather than a sign of failure to implement the initiative. It should be realized that there will always be some lag in training of personnel due to turnover and the time it takes to schedule personnel for training.

10

13. Page 19, second paragraph, first sentence: The DODIG indicates that it found guidance on the initiatives to the Military Departments field activities to be incomplete and inadequate but provides no indication of what would have constituted complete and adequate guidance.

10

14. Page 19, second paragraph, last two sentences: The allegation that the Army misrepresented the status of implementation by field activities to ASD(P&L) is completely erroneous. The Army periodically reported the status of implementation based on the best information available at the time.

10

15. Page 20, first paragraph, last sentence: We do not agree with the philosophy that activities comply with directives primarily because Headquarters makes them comply. We must assume that for the most part, personnel follow regulations and directives because they are conscientious and want to do things the right way.

10

16. Page 22, Recommendation 2c: " We find nothing in the report to indicate a deliberate, willful misrepresentation on the part of any Army official reporting on the implementation of the property initiatives to OASD(P&L) and can see no basis for the recommendation for disciplinary action.

Deleted.

MANAGEMENT COMMENTS - DEPARTMENT OF THE ARMY (cont'd)

Army Comments on DODIG Findings of Army
Non-Implementation of Initiatives - Appendix B to
Draft Audit Report on Government Property in the
Possession of Contractors (Project No. OCA-0047)

FINDING: Initiative 1. Ensure compliance with existing policies.

Not implemented.

RESPONSE: Nonconcur with the DODIG. On 19 February 1987, the Army Materiel Command (AMC) sent a letter to each of its Major Subordinate Command (MSC) Commanders. The letter contained a copy of the Godwin Memorandum and directed each MSC to provide a plan of action to implement the Memorandum. To ensure implementation of the Godwin Memorandum, annual Production Management Compliance Reviews (PMRs) were conducted at every MSC and Government-Furnished Property (GFP) issues were addressed. Due to reorganizations within the Army Materiel Command, these reviews have been discontinued. Property continues to be reviewed as a part of visits by AMC personnel to field activities and Acquisition Improvement Reviews (AIRS) teams visits to contractors. Property management is a subset of contract administration which is reviewed during Acquisition Management Reviews conducted by Department of the Army and Army MACOMs/HCA's and is also reviewed by the DAIG and Army Audit Agency.

FINDING: Initiative 2. Establish mechanism to track implementation of USD(A) Memorandum of 25 November 1986.

Partially implemented.

RESPONSE: Nonconcur with the DODIG. We established a tracking mechanism covering all initiatives during the second quarter of 1988 and had updates from HQAMC until January 1991. The comments on Initiative 1 would be applicable to this Initiative also. Further, each AMC MSC has its own mechanism for tasking and establishing operating procedures for its reporting installations. HQAMC established a Steering Group which met quarterly to oversee the implementation of the initiatives. The status of the implementation was provided to HQDA. No erroneous statements were knowingly made to HQDA by HQAMC or by HQDA to OASD(P&L).

FINDING: Initiative 6. Increase use of incentives for contractor investment.

Partially implemented.

Enclosure 2

MANAGEMENT COMMENTS - DEPARTMENT OF THE ARMY (cont'd)

RESPONSE: Nonconcur with the DODIG. At the time of the Godwin Initiatives, guidance was sent to the field and implemented in Army regulations prohibiting Government investment in facilities except under exceptional/approved circumstances. Maximum contractor investment was required in acquisition strategies/plans, the solicitation process, and the proposal evaluation for Army weapon systems. Additionally, the Army had the Industrial Modernization Incentives Program (IMIP), MANTECH, and other programs designed to encourage contractor investment. Our 5 May 1989 update report to OASD(P&L) cited several specific contractual efforts being tried under the Value Engineering Program and Contractor Productivity Improvement Program. However, realistically, it should be recognized that since the Godwin Initiatives were issued, the Cold War has ended, defense is drastically downsizing, and the new emphasis of the future is to fund research and development efforts with very few of these products taken into the actual production stage. Under these circumstances, the financial climate is not conducive to contractor investment. Today, we encourage contractor investment through the use of long term contractual arrangements.

FINDING: Initiative 7. Dispose of unneeded ST and STE; justify continued storage; review annually for disposal.

Partially implemented.

RESPONSE: Nonconcur with the DODIG. Guidance for obtaining/disposal of ST/STE is institutionalized in the Federal Acquisition Regulation (FAR). Disposal records (DD 1638) do not break out ST/STE as a separate category. However, when GOCOs were declared excess, property records showed significant disposal actions were taken for all types of equipment. Further, in our 23 November 1988 report to OASD(P&L) on the Initiatives, we showed the Army disposing of \$10 million of ST/STE on the DRAGON Program and \$437 million under the DIVAD Program. All Government property is reviewed by the Property Administrator during the annual property on-site survey. Retention/disposal decisions are made as a result of the surveys.

FINDING: Initiative 9. Improve the acquisition, management, and disposal of ST (Defense Acquisition Regulation Case - 85-241).

Partially implemented.

MANAGEMENT COMMENTS - DEPARTMENT OF THE ARMY (cont'd)

RESPONSE: Nonconcur with the DODIG. The response to the Initiative would be substantially the same as for Initiative 7. The Contracting Officer approves each acquisition of ST/STE. Management of ST/STE is an ongoing process at various levels. A new DAR Case (90-18) has been approved by the DAR Council and is presently at the Civilian Agency Acquisition Council (CAAC) for adoption Government wide. This will provide revised policy and procedures for acquisition and management of ST.

FINDING: Initiative 10. Stop Misclassification of Plant Equipment as ST or STE.

Partially implemented.

RESPONSE: Nonconcur with the DODIG. The definitions, usage and disposal of ST/STE are institutionalized in the FAR. The Contracting Officer approves the procurement of ST/STE, which would preclude misclassification. The review of Plant Equipment would reveal misclassification during the Property Administrator's annual surveys.

FINDING: Initiative 11. Complete actions under IG, DOD Report No 84-032, "Government-Furnished Material at DOD Production Contractors."

Partially implemented.

RESPONSE: Nonconcur with the DODIG. As a result of an earlier review, no systemic or procedural problems were identified by Army Materiel Command. We know of no open actions on DOD Report No. 84-032. Quantities of GFM over and above those authorized by the contract are detected during daily plant operations and the annual property surveys.

FINDING: Initiative 12. Complete full implementation of DOD Instruction 4140.48, "Control of Access to DOD Material Inventories Required by Defense Contracts," stop unauthorized access to DOD supply system for GFM.

Partially implemented.

RESPONSE: Nonconcur with the DODIG. The Army automated system has been developed and implemented for wholesale assets. It is implemented to the extent that the AMC MSCs are loading data item information for contracts requiring requisitions to be routed to the MCA.

MANAGEMENT COMMENTS - DEPARTMENT OF THE ARMY (cont'd)

FINDING: Initiative 16. Eliminate storage and maintenance of inactive, non-essential GOCOs and equipment not in GOCOs.

Partially implemented.

RESPONSE: Nonconcur with the DODIG. The Army is continuing to pursue this to the maximum extent. Seven ammunition plants have been identified as excess to need. However, it must be realized that many of the Army facilities have contamination problems that will preclude prompt disposal due to compliance with public law. Many of these environmental problems may be long term and require tremendous expenditures not currently available. In addition, AMC has disestablished 38 Plant Equipment Packages since 1987, allowing for the disposal of thousands of pieces of IPE/OPE/ST/STE. Our 5 May 1989 update report to OASD(P&L) showed disposal of almost \$100 million worth of equipment during FY 88.

FINDING: Initiative 17. Track and report storage and maintenance costs and retention priority on all inactive GOCOs.

Partially implemented.

RESPONSE: Nonconcur with the DODIG. See Initiative 16. The Army has a GOCO model to prioritize inactive GOCOs and elimination efforts are based on that priority. Storage and maintenance costs are portrayed in the Army's budget submission. All GOCO and production equipment storage and maintenance costs are tracked and reported annually using procedures in AR 37-100-XX, Army Management Structure, and AR 700-90, Army Industrial Base Program.

FINDING: Initiative 22. Review each property-bearing contract; dispose of property not required.

Not implemented.

RESPONSE: Nonconcur with the DODIG. See Initiatives 7 and 16. Army Acquisition Letter (AL) 88-6, 10 February 1988, contained a requirement for contracting offices to review all contracts involving Government property to ensure that unneeded property was removed and disposed of. In our 7 February 1989 memorandum to OASD(P&L), subject: FY 89 Management Improvement Plan - First Quarter Tracking, we reported that the Army had reviewed 247 contracts and disposed of \$73 million worth of unneeded Government property. Review of property is a continual, ongoing, essential element of the property administration function.

MANAGEMENT COMMENTS - DEPARTMENT OF THE ARMY (cont'd)

FINDING: Initiative 23. Identify mission-essential Government plants and equipment; dispose of nonessential in time-phased plan.

Partially implemented.

RESPONSE: Nonconcur with the DODIG. See Initiative 16. The Army has promulgated an Excess-to-Ownership Policy, disseminated to appropriate Army activities, which promotes selling all property not needed to be owned by the Government. The only condition is the property must be maintained for mobilization purposes for a specified time period. Under this policy, the Army has completed three sales and four are in process.

FINDING: Initiative 24. Sell essential plants where ownership is not required; update ASD(P&L) on plans.

Partially implemented.

RESPONSE: Nonconcur with DODIG. See Initiatives 16 and 23.

FINDING: Initiative 25. Eliminate unallowable profits/fees; recover those paid on open contracts.

Not implemented.

RESPONSE: Nonconcur with the DODIG. AMC disseminated a letter to each MSC on 15 January 1987 directing implementation of existing policies relating to the acquisition, management, control and disposal of Government property. Acquisition Letter 88-6 issued on 10 February 1988 provided additional guidance for implementation of the policies. Contracting activities were directed to attempt to identify all instances of payment of profit or fee for such purchases and recoup any amounts so paid whenever it could be accomplished legally. As we reported to OASD(P&L) by 7 February 1989 memorandum, subject: FY 89 Management Improvement Plan - First Quarter Tracking, the Army identified \$987,000 in unallowable profits/fees and attempted recoupment. The majority of the contractors refused to repay on the basis that the contracts did not specify unallowability of these profits/costs. Legal counsel advised that, since the FAR (at that time) did not specifically state unallowability, no further action was appropriate. The Army did recoup \$9,666.14.

FINDING: Initiative 26. Fully implement financial accounting.

Not implemented.

MANAGEMENT COMMENTS - DEPARTMENT OF THE ARMY (cont'd)

RESPONSE: Nonconcur with the DODIG. This is being reviewed by an OSD Corporate Information Management (CIM) group. Implementation of this initiative is not within the purview of the Army.

FINDING: Initiative 30. Fully train property personnel and enhance their management and technical skills.

Partially implemented.

RESPONSE: Nonconcur with the the DODIG. Acquisition Letter (AL) 88-6, dated 10 February 1988, required Army contracting offices to ensure fully trained and qualified property administrators are assigned responsibility for each contract performance location where Government property is involved and the contracting office retains administration. Inasmuch as several courses are required for "full" training (the number of courses increasing with the individual property administrator's grade level and extent of responsibility) and personnel turnover is a fact of life, it is physically impossible for all property administrators to be "fully" trained at any one point in time. Availability of training funds and classroom quotas also limit ability to "fully" train property administrators. With establishment of mandatory, centrally funded courses for property management personnel in the 1103 series as a result of the Defense Acquisition Workforce Improvement Act, training should be more readily available for full-time property administrators. Training requirements and availability for non 1103 series individuals performing property administration on a part-time basis is a different matter. Our intent is to assure that all individuals working with Government property have the training they need to competently carry out the level of their responsibilities. Traditionally, most Army property administrators were located at ammunition plants (under the Armament, Munitions and Chemical Command within AMC). Since AL 88-6 was issued, Forces Command has established full-time 1103 property administrator positions at installations with a large amount of property in the hands of contractors working on the installation (for example, as the result of the Commercial Activities Program).

MANAGEMENT COMMENTS - DEPARTMENT OF THE ARMY (cont'd)

Final Report
Reference

Army Comments on Appendix C to Draft Audit Report on
Government Property in the Possession of Contractors
(Project No. OCA-0047) - (Effectiveness of the
Office of the Secretary of Defense Memorandum)

Deleted.

1. Page 39, second paragraph, second sentence: We take exception to the DODIG's statement that the Army issued confusing and misleading guidelines which "hindered the implementation of the initiatives." As a result of our application of the initiatives, we have better control and management of property than was the case in 1986.

Deleted.

2. Page 40, first paragraph, third sentence: We strongly disagree with the DODIG's allegation that the Army "erroneously reported the status of the property initiatives implemented, on the quarterly report, to the ASD(P&L)." All reports submitted to OASD(P&L) by the Army were honest assessments of the Army's accomplishment of implementation of the initiatives.

Deleted.

3. Page 40, third paragraph, first and second sentences: The DODIG's statement that AMC did not task or notify commanders of the ammunition plants, Mainz Army Depot, or other activities to implement the DOD property initiatives stems from the DODIG's failure to understand Army contracting channels and policy dissemination. The Office of the Assistant Secretary of the Army (Research, Development and Acquisition) sent out the DOD property initiatives to all Army Heads of Contracting Activity. The Head of Contracting Activity for Mainz Army Depot is the DCINC, U.S. Army, Europe. The DODIG's statement that the Army failed to notify the property administrator at the GOCO facility at Redstone Arsenal, Alabama, is also misleading since, as the DODIG indicates, the property administrator is under DLA, not the Army. (The Army did, however, furnish the initiatives to the Commander, U.S. Army Missile Command at Redstone.)

40

4. Page 40, third paragraph, last sentence: The DODIG states that the National Training Center and Fort Irwin did not receive a copy of Acquisition Letter (AL) 88-6 until their January 1991 visit. We sent AL 88-6 to the CINC, U.S. Forces Command in February 1988. The Forces Command Principal Assistant Responsible for Contracting reproduced AL 88-6 and sent it to the contracting offices at every Forces Command installation (including the National Training Center and Fort Irwin). Since our acquisition letters are numbered sequentially and issued several times a year, the National Training Center would have known long before January 1991 that it was missing an acquisition letter and could easily have requested a copy of the AL from Forces Command if the AL was, indeed, not received.

Enclosure 3

MANAGEMENT COMMENTS - DEPARTMENT OF THE NAVY



THE ASSISTANT SECRETARY OF THE NAVY
(Research, Development and Acquisition)
WASHINGTON, D C 20350-1000

JUL 14 1992

MEMORANDUM FOR THE INSPECTOR GENERAL, DEPARTMENT OF DEFENSE

Subj: DRAFT AUDIT REPORT ON GOVERNMENT PROPERTY IN THE
POSSESSION OF CONTRACTORS (PROJECT NO. OCA-0047)

Ref: (a) DODIG Memo of 10 April 92, same subj.
(b) USDA Memo of 25 Nov 86, Government Property in
the Possession of Defense Contractors

Encl: (1) DON Response to Draft Audit Report

This is in response to reference (a). The Navy fully supports the Under Secretary of Defense (Acquisition) initiatives identified in reference (b). Accordingly, we issued policy to improve the management of Government property and directed the commands to aggressively comply with the initiatives. We found your audit report helpful in assessing the current status of the Navy implementation. Because Navy places a high priority on sound property management, we are using your audit report as a tool to focus our efforts to improve areas where weaknesses may exist.

The detailed Navy response is at enclosure (1).


Gerald A. Cann

Copy to:
NAVINGEN
NAVCOMPT (NCB-53)

Department of the Navy Response to DODIG
Draft Audit Report on Government
Property in the Possession of Contractors
(Project No. OCA-0047)
dated April 10, 1992

DODIG FINDINGS:

This audit evaluates the DoD implementation of the property initiatives related to Government property in the possession of contractors, as directed by the 25 November 1986 memorandum of the Under Secretary of Defense (Acquisition), and reviews the effectiveness of internal controls applicable to the property initiatives.

The memorandum directed DoD Departments and Agencies to implement thirty initiatives that would dispose of old, obsolete, and nonessential Government property; reduce the amount of property in the possession of contractors; correct unauthorized access into the DoD supply system; stop the continuing increase in new property going to contractors; and improve management of Government property.

The audit showed that property initiatives related to developing policy, revising regulations, and establishing procedures were basically implemented as directed by USD(A); however, certain Navy field activities have less than full implementation of twelve of the thirty initiatives. Additionally, the audit found that tasking did not provide adequate guidance that would ensure implementation at the field activities and the quarterly status reports to ASD(P&L) were not based on supportable documentation that could be verified by audit.

DOJ RESPONSE:

PARTIALLY CONCUR. The Navy strongly supported the directions in the USD(A) memorandum. We began immediately to aggressively pursue implementation. We have acted on and issued policy where appropriate to implement each of the property initiatives. The DODIG concurs that implementation has been made at ASN (RDA). Initial reporting and implementation reviews of field activity compliance were made with primary follow-up to be a matter to be addressed during procurement management reviews.

The audit disclosed areas where, because of inadequate understanding of the policy or inadvertent oversight, field level implementation was not considered complete. These deficiencies were not uncovered in our oversight. As a result of the areas identified in the audit report we are pursuing additional follow-up to ensure full implementation.

MANAGEMENT COMMENTS - DEPARTMENT OF THE NAVY (cont'd)

Final Report
Reference

However, the Navy has been unable to identify the requirement in the USD(A) initiatives of November 25, 1986 to maintain auditable records of implementation at the headquarters or the field.

RECOMMENDATIONS FOR CORRECTIVE ACTION

DODIG RECOMMENDATION:

1. We recommend that the Assistant Secretary of the Army (Research, Development and Acquisition), the Assistant Secretary of the Navy (Research, Development and Acquisition), the Assistant Secretary of the Air Force (Acquisition), and the Director, Defense Logistics Agency task their Commands and field activities to fully implement the appropriate property initiatives, as outlined below and initiate procedures to monitor their progress.

Deleted.

Navy - Property initiatives 1, 2, 6, 7, 8, 9, 11, 12, 22, 24, 25, and 26. (NOTE: DODIG considered deficiencies in 12 Navy, 15 Air Force, 16 Army, and 16 DLA initiatives)

DON RESPONSE:

CONCUR with one; partially concur with four; and nonconcur with seven. Detailed comments on each of the initiatives are at Attachment A.

DODIG RECOMMENDATION:

2. We recommend that the Assistant Secretary of the Army (Research, Development and Acquisition), the Assistant Secretary of the Navy (Research, Development and Acquisition), the Assistant Secretary of the Air Force (Acquisition), and the Director, Defense Logistics Agency:

a. Develop procedures for conducting inspections of contracting officers, contract administrative officers, and property administrators to verify that assigned tasks related to property management, particularly those related to the property initiatives, are performed.

Deleted.

b. Track the implementation of property initiatives by requiring field activities to report actions taken on all applicable initiatives and by maintaining documentation that is available for audit or command review.

Deleted.

c. Initiate disciplinary action against officials who misrepresented the status of the implementation of the property initiatives to the Office of the Assistant Secretary of Defense (Production and Logistics).

Deleted.

MANAGEMENT COMMENTS - DEPARTMENT OF THE NAVY (cont'd)

Final Report
Reference

DON RESPONSE:

Deleted.

2.a. PARTIALLY CONCUR. A review is being made of procedures used by the Navy to ensure they are fully effective. Where deficiencies are found corrective procedures will be implemented. Because several Navy activities are administered by the Defense Contract Management Command we are requesting their cooperation to ensure the improved tracking procedures are fully implemented on Navy contracts.

Deleted.

2.b. CONCUR. We will reinstate selected reporting requirements as well as continue existing submissions to track field implementation. Government property will be made a special interest item in procurement management reviews. These submissions and other documentation will be retained for audit and continued review.

Deleted.

2.c. NON-CONCUR. This recommendation appears to be based on allegedly misrepresenting the status of the initiatives, subsequent to granting a deviation to established policy. In response to the USD (A) initiative to eliminate no cost storage agreements we immediately issued policy directing Navy activities to eliminate such agreements and we initiated a status report to track the implementation.

In September 1989 we permitted a deviation from the policy to issue agreement N00019-90-E-9004 with Douglas Aircraft Company. This was granted because of a continuing need for the tooling to support fleet operations, an inability to define minimum tooling to be retained, and the proposed costs for a funded agreement were unreasonable. This extraordinary action was justified and fell within the bounds of regulations.

This deviation does not nullify the policy to eliminate "no cost" storage agreements nor does it invalidate the Navy status report. When the Navy issued the policy in February 1988 to eliminate no cost storage agreements the status was reported as follows: "Complete, Navy activities so directed." The statement referred to the fact that the policy was issued. That was the Navy's response to what was requested in the status report.

The status of the implementation of the property initiatives was not misrepresented. Therefore, disciplinary action is not warranted.

ATTACHMENT A
IMPLEMENTATION OF EACH INITIATIVE

Note: In the interest of brevity the recommendations have been summarized. Reference to other services and DLA have been omitted.

INITIATIVE 1 - ENSURE COMPLIANCE WITH EXISTING POLICIES

DODIG FINDING:

NOT IMPLEMENTED. Place more discipline in the implementation of existing policies. Audit results showed failures to ensure compliance with existing policies and regulations.

INITIATIVE 2 - ESTABLISH MECHANISM TO TRACK IMPLEMENTATION OF USD(A) MEMORANDUM OF NOVEMBER 25, 1986

DODIG FINDING:

PARTIALLY IMPLEMENTED. Requirement to track improvements on a regular basis through various forums, including the Defense Council on Integrity and Management Improvement, as appropriate. Audit results showed that tracking systems were established and progress reported on a regular basis to ASD(P&L). However, Navy failed to adequately task and monitor the implementation by their subordinate commands and field activities. Also, certain initiatives that had not been implemented were erroneously reported as completed or closed.

DON RESPONSE: (Joint response to Initiatives 1 and 2)

NON-CONCUR. After the USD(A) memorandum of November 25, 1986 the Navy increased its already concerted effort to improve the management of Government property. This included efforts to review existing procedures, rewrite policies, train personnel, ensure compliance and track the implementation of the initiatives.

On 21 January 1987, the Assistant Secretary of the Navy (Shipbuilding and Logistics) directed Navy activities to comply with the policies outlined in the USD(A) memorandum, and identified specific action items. All activities were requested to give these actions priority and report on a specific timetable.

To focus management attention on and to ensure implementation and compliance with the USD(A) direction we issued a memorandum in October 1987 requiring the commands to forward quarterly reports.

Additionally, the Navy used and continues to use a variety of methods to track progress in improving property management:

MANAGEMENT COMMENTS - DEPARTMENT OF THE NAVY (cont'd)

- procurement management reviews,
- inspector general inspections where a property management specialist participates on the team,
- follow-up on GAO, DODIG and Naval Audit Service audits which covered the same topics as the USD(A) memorandum,
- coordinating the Navy effort and participating in the DOD effort to issue a property manual,
- national meetings with the property administrators from the major systems commands,
- local meetings with the property points of contact at the systems commands,
- participating in a flag level steering group to monitor compliance with certain initiatives,
- annual review of property in storage (plant equipment packages) in accordance with the Secretary of the Navy Instruction 4870.23.B,
- reviewing quarterly disposition figures, and
- developing, improving and analyzing a system for reporting and accounting for property on the DD Form 1662, "DOD Property in the Possession of Contractors". This data is accumulated by Naval Industrial Resources Support Activity (NAVIRSA).

The final statement in Initiative 2 states: "...certain initiatives that had not been implemented were erroneously reported as completed or closed." We addressed this under Recommendation 2.C.

Note: Because of the continuing priority efforts being taken in property management the Navy status reports considered Initiative 1, "Ensure compliance with existing policies" as "ongoing".

INITIATIVE 6 - INCREASE USE OF INCENTIVES FOR CONTRACTOR INVESTMENT

DODIG FINDINGS:

PARTIALLY IMPLEMENTED. Use available contracting incentives to encourage greater contractor investment in productivity enhancing manufacturing equipment. The Industrial Modernization Incentives Program and the capital investment incentives to be used were to be published in the FAR. The audit showed that the Military

Departments and DLA revised applicable regulations to provide greater investment incentives but Navy field level activities did not fully implement the modernization program.

DON RESPONSE:

NONCONCUR. This initiative is implemented and managed by major buying activities rather than field activities. Policy and oversight for IMIP are provided by the Product Integrity Directorate of ASN (RD&A). The Navy successfully implemented IMIP programs with several contractors including Grumman, Thiokol, Northrop, McDonnell Douglas Missile Systems, Allison and Electric Boat.

We currently have programs with the Naval Air and Sea Systems Commands and the Naval Command, Control and Ocean Surveillance Center, San Diego. Further, we are participating in the DOD Components Group revision to the DOD Directive 5000.44.

In addition to IMIP the Navy employed several strategies to increase contractor investment including dual source production competition, contractor purchase of special tooling and test equipment, and a revised DOD profit policy which rewarded contractor investment.

INITIATIVE 7 - DISPOSE OF UNNEEDED SPECIAL TOOLING (ST) AND SPECIAL TEST EQUIPMENT (STE); JUSTIFY CONTINUED STORAGE; REVIEW ANNUALLY FOR DISPOSAL

DODIG FINDINGS:

PARTIALLY IMPLEMENTED. Promptly dispose of unneeded ST and STE from contractors locations or Government storage and so modify storage agreements. (Also see Initiative 8.) Audit results showed that although the Navy policy adequately tasked field activities this initiative was not implemented.

DON RESPONSE:

PARTIALLY CONCUR. By memo of 21 January 1987 Navy activities were directed to screen and dispose of all excess ST and STE on an expedited basis. This initiative is still ongoing in the Navy. The revised 1991 DOD Property Manual allowed for exceptions to annual surveys; however the Navy, through revision to the Navy Acquisition Procedures Supplement (NAPS), directed that contractors' procedures for disposition continue to be reviewed annually (NAPS 5245.104).

Additionally, all stored ST and STE must be reviewed annually for retention. The NAPS will be further revised to require documentation of this annual review.

The Navy policy concerning the transfer of property between contracts was issued on 10 March 1987 directing that government property (including ST and STE) shall not be transferred between contracts unless there is a need in the follow-on contract, approval is obtained, adequate consideration is received and proper identification is maintained. The policy is currently implemented by NAPS 5245.390(a)(1). Direction will be provided for administrative contracting officers to maintain records of approvals to transfer material.

On 28 October 1987, ASN(S&L) implemented a quarterly Government Property Status Report to track the progress of Navy activities in complying with OSD and Navy-directed policy. The requirement for this report expired January 1990. This quarterly report is being reinstated for a two year period beginning with the September 30, 1992 report.

Further, the DD Form 1662 provides an annual report of the quantity and cost of ST and STE by contract, contractor and buying activity. This data is used by ASN(RD&A) APIA PP for oversight and management of ST and STE being retained by contractors.

INITIATIVE 8 - ELIMINATE "NO-COST STORAGE AGREEMENTS"

DODIG FINDINGS:

PARTIALLY IMPLEMENTED. Cease using "no-cost" storage agreements. All storage agreements were to be separately priced and directly funded. Justification was required for continued storage and to establish procedures for annual screening for retention or disposal. Any property identified as excess was to be disposed of on an expedited basis.

The Navy did not eliminate "no-cost" storage agreements. For example, the Navy awarded no-cost storage agreement number N00019-90-E-9004, February 2, 1990 for ST/STE storage.

DON RESPONSE:

PARTIALLY CONCUR. Completion of this initiative was based on the January 1987 ASN (S&L) memo directing the Systems Commands to cease using no-cost storage agreements. This was further implemented in the NAPS of February 29, 1988 which stated:

"45.612-3 Special storage at the Government's expense (90)

(a) Storage of government property shall be separately priced and fully funded to include all allocable costs. The use of "no-costs" or no direct cost storage agreements is prohibited.

(b) Prior to authorizing retention of items in storage the contracting officer shall ensure that a retention plan has been developed and that sufficient funds are available to pay all storage costs. Retention plans will include the justification for storage, a detailed description of the property to be stored, storage cost, location, planned period of storage, and source of funds for storage.

(c) Retention decisions shall be reviewed annually to determine whether continued storage is desired or other disposition in order."

This is currently covered by NAPS 5245.612-3 and DFARS 245.612-3.

Additionally, as a result of the DODIG Report we have again screened the commands to determine that all agreements which have expired have been closed. We have directed the commands to continue quarterly reports until these expired agreements are closed. In conjunction with this we sent a memorandum to the Defense Contract Management Command requesting cooperation since the agreements are under their cognizance for administration.

INITIATIVE 9 - IMPROVE THE ACQUISITION, MANAGEMENT, AND DISPOSAL OF ST (DEFENSE ACQUISITION REGULATION CASE - 85-241)

DODIG FINDINGS:

PARTIALLY IMPLEMENTED. Improve overall acquisition, management, and disposition of Government-owned ST. The audit showed that management over ST did improve. However, field activities did not fully implement the initiative.

DON RESPONSE:

CONCUR. Federal Acquisition Regulation (FAR) Clause 52.245-17, Special Tooling, which tightened controls for special tooling, was published December 1989. However industry stated the property control requirements were too burdensome and was successful in having the Defense Regulation Council issue a deviation in October 1990 to use the 1984 clause. The Defense Acquisition Regulation Government Property Committee was tasked to modify the 1989 clause to consider industry's comments.

The Navy participated in the 1991 rewrite but this version has not yet been published in the FAR. A second deviation was granted which extends the use of the 1984 version until October 1992.

INITIATIVE 11 - COMPLETE ACTIONS UNDER IG, DOD REPORT NO. 84-032

DODIG FINDING:

PARTIALLY IMPLEMENTED. Inspector General, DoD Report No. 84-032, "Government-Furnished Material at DoD Production Contractors," February 2, 1984, identified management problems in the area of Government-Furnished Material (GFM). Priority attention was to be given to correct all systemic problems in this area.

Audit results showed that the initiative, was only partially implemented by the Navy. Generally, the sites visited were aware of the requirement to correct the systemic problem of excess GFM at contractors, which was highlighted by Report No. 84-032. Further, the Navy established on-line capability to review material status and implemented a reapplication process for excess repair parts. Our review showed that the Naval Supply Systems Command (NAVSUP) did not task subordinate commands to implement this initiative.

DON RESPONSE:

NONCONCUR. We believe the lack of tasking by NAVSUP refers to the one time requirement that activities screen contracts with over \$20 million in property. As NAVSUP had no contracts with more than \$20 million in property they did not issue implementing instructions.

INITIATIVE 12 - COMPLETE FULL IMPLEMENTATION OF DOD INSTRUCTION 4140.48, "CONTROL OF ACCESS TO DOD MATERIAL INVENTORIES REQUIRED BY DEFENSE CONTRACT." STOP UNAUTHORIZED ACCESS TO DOD SUPPLY SYSTEM FOR GFM

DODIG FINDING:

PARTIALLY IMPLEMENTED. Fully implement DoD Instruction 4140.48, "Control of Access to DoD material Inventories Required by Defense Contractors," dated March 6, 1986, to control defense contractors' access to DoD material inventories and investigate unauthorized access.

The audit showed that control over Defense contractors' access to DoD material inventories was not fully implemented. The audit showed that management control activities have been identified. However, significant problems exist that prevented full operation of the management control activities. The Navy is experiencing access control and communication interface problems between supply sources and contractor locations. Further, the Naval Supply System Command reported that automated capability changes are required to achieve implementation.

DON RESPONSE:

PARTIALLY CONCUR. The Navy issued an instruction establishing management control activities in September 1989. Later that year OASD (P&L)(SD) announced that the management control activities

must be compatible for all services which resulted in revision of our existing system. The OASD implementation date of November 1, 1990 was met by an initial manual system. The Navy instruction was updated September 1991.

The Systems Commands have in many instances revised policy to deny contractors the right to order directly from the supply system. We are now reviewing the implementation of this initiative based on experience to date. Because of low number of requisitions we will maintain a manual system at some activities. Automated interface validation is planned for implementation at the inventory control points during late 1992.

INITIATIVE 22 - REVIEW EACH PROPERTY-BEARING CONTRACT; DISPOSE OF PROPERTY NOT REQUIRED

DODIG FINDING:

NOT IMPLEMENTED. Contract administration and contracting activities were to take immediate action to review all contracts with Government property and dispose of all unneeded/excess property.

The audit results showed that the Navy reported to OSD that this initiative was complete. However, Navy field activities documentation and reports issued to their respective Headquarters components disclosed that only a sample of contracts were reviewed. As a result, unneeded and excess property remains on property-bearing contracts.

DON RESPONSE:

PARTIALLY CONCUR. Current situation is consistent with our status report of an "ongoing" review.

Direction to the commands in January 1987 memorandum states:

"Establish action item for all contract administration and contracting activities to conduct a phased review of all contracts with government property."

In February of 1987 Naval Sea Systems Command directed the SUPSHIPS to implement a review which included all contracts. However, after the initial review of facilities and closed contracts the method of tracking for all other contracts was tied to the DD Form 1638, Reports of Disposition, which tracks only by items and dollars dispositioned. It was not apparent that directions were not being followed at all activities. We were unaware that SUPSHIP Groton had chosen to implement this on a sampling basis.

Because of the dynamic nature of this initiative we believe there

are few property bearing contracts open in 1986 which have not been reviewed. The SUPSHIPS report that all except two major contracts under construction in 1987 have delivered. This is consistent with our reports to OSD that review is "ongoing".

At this time, rather than track any contracts which may not have been reviewed we propose a proactive approach. We believe that DOD regulations need revising to ensure that property administrators take an active role to ensure that excess property is reported and dispositioned within a reasonable time at two milestones:

- when changes occur under long term contracts and
- when the items on the contract have been delivered.

INITIATIVE 24 - SELL ESSENTIAL PLANTS WHERE OWNERSHIP IS NOT REQUIRED; UPDATE ASD(P&L) ON PLANS

DODIG FINDING:

PARTIALLY IMPLEMENTED. Identify Government Owned, Contractor Operated (GOCO) facilities where continued ownership by the DoD is no longer essential. When the facilities are found to be essential for the operating contractors to continue performance of DoD programs, these facilities are candidates for negotiated sale by General Services Administration to the operating contractors.

The Navy identified GOCO facilities where continued ownership by DoD was no longer essential and action was taken to sell plants where ownership was no longer essential.

DON RESPONSE:

NON-CONCUR. The basis for the DODIG finding is not understood as the audit finding did not cite any specific non-compliance by the Navy. The Navy has identified those facilities which are excess to ownership but not excess to need and has aggressively pursued the sale of these facilities. Due to environmental problems, the contractors' expectations of an anticipated decline in future DOD business, the lack of interested buyers, and in the case of LTV a bankruptcy, we have been only moderately successful in selling plants. Since the time of the audit we have forwarded to General Services Administration the documents for the sale of the Kodak plant at Rochester, New York, and have vacated the Unisys plant at St. Paul, Minnesota. It is no longer a GOCO and will be transferred to the Army as a Government activity.

INITIATIVE 25 - ELIMINATE UNALLOWABLE PROFITS/FEEES; RECOVER THOSE PAID ON OPEN CONTRACTS

MANAGEMENT COMMENTS - DEPARTMENT OF THE NAVY (cont'd)

DODIG FINDING:

NOT IMPLEMENTED. Identify any profits or fees paid to contractors on a facilities contract. In addition, identify general purpose plant equipment that has been acquired by contractors on other than a facilities contract and determine if such equipment should have been furnished under a no-fee facilities contract. Actions were to be taken to recover any improper profits or fees on open contracts whenever it could be accomplished legally.

Navy reported full compliance for this initiative to the Office of ASD(P&L). However, documentation was not available that would indicate the status of this initiative. Specifically, working papers or schedules were not available that would indicate the number and type of contracts reviewed, the amount of profit or fee, and specific action taken to recover improper profits or fees. Field-level activities have not implemented this initiative.

DON RESPONSE:

NON-CONCUR. DD Form 1662s were screened for plant equipment in other than facilities contracts. By memorandum of February 1988 this list was forwarded to the commands with direction to attempt recovery of any fee or profit paid on the facilities. Although considered improper, at that time there was no specific regulatory prohibition against the fees. Therefore the commands could only request a voluntary refund.

Further, as a result of a Navy sponsored case (88-008), the FAR was revised in 1990 to prohibit profit or fee on the acquisition cost of facilities acquired for the account of the Government.

INITIATIVE 26 - FULLY IMPLEMENT FINANCIAL ACCOUNTING

DODIG FINDING:

NOT IMPLEMENTED. The establishment of Financial Accounting Systems for Government-owned property was to be fully implemented in accordance with the individual milestones established for each of the Military Departments and DLA by the Comptroller of the DoD, no later than October 1989.

This initiative has not been fully implemented. The Military Departments and DLA indicated to the ASD(P&L) that their revised milestone for full implementation of the Financial Accounting System will be achieved during mid-1992.

DON RESPONSE:

NONCONCUR. Policy has not been issued by the DOD comptroller. Through NAPS Part 5245.104-90 the Navy has on its own implemented

MANAGEMENT COMMENTS - DEPARTMENT OF THE NAVY (cont'd)

procedures which we believe meet physical and financial accounting requirements for accounting for Government furnished material in the custody of contractors. This uses the DD Form 1662 as the source document.

The lack of full reporting and accounting had been a point of contention for the GAO and Congress, and was repeated by OSD in Initiatives 26 and 27. We initiated reforms in this area to include full reporting of all property in the contractors' possession. Previously DOD contractors only reported property which is in the warehouse. Activities where we have contract administration report all property. Additionally, the Navy sponsored a Defense Acquisition Regulation Council case to require full reporting of all DOD contracts.

In the Navy system the property administrator performs an independent verification of the contractor's records to certify that the data reported on the DD Form 1662 for GFM accurately reflects the value of GFM under the contractor's control in accordance with the FAR/DFARS. This allows the DD Form 1662 to be a valid source document for the Navy's general ledger.



OFFICE OF THE ASSISTANT SECRETARY

DEPARTMENT OF THE AIR FORCE
WASHINGTON DC 20330-1000

JUN 15 1992

SAF/AQ
Pentagon RM 4E964
Washington DC 20330-1000

MEMORANDUM FOR ASSISTANT INSPECTOR GENERAL FOR
AUDITING
OFFICE OF THE INSPECTOR GENERAL
DEPARTMENT OF DEFENSE

SUBJECT: Draft Audit Report on Government Property in the Possession of
Contractors (Project No. OCA-0047), (Your Memo, Apr 10, 1992)
- INFORMATION MEMORANDUM

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

We have reviewed your draft report and believe that an approach
different from that embodied in your recommendations is needed. First, we
believe a sincere effort was made to implement the 1986 USD(A)
memorandum in a reasonable way. Second, we see little value at this time in
attempting to reconstitute the implementation plans developed over five
years ago. Air Force Logistics Command and Air Force Systems Command
organizations and missions have changed since 1986, including the transfer
of contract administration responsibilities from the Air Force Contract
Maintenance Center and the Air Force Contract Management Division to the
Defense Contract Management Command under the Defense Logistics
Agency. And third, the draft report contains little evidence to support the
actions contained in the recommendations.

We want to pursue actions which have a positive benefit or add value
to today's acquisition process. It is essential that we apply our limited
resources in a thoughtful, forward-looking way. Therefore, as an alternative
to the recommendations contained in the draft report, we believe it will be far
more productive to assess today's risks in controlling Government property
and to initiate new actions, as appropriate. In addition to this fresh
assessment, we will ensure that (1) the last two remaining no-cost storage
agreements have been reviewed and closed out and any outdated guidance in

Recommendation
deleted.

MANAGEMENT COMMENTS - DEPARTMENT OF THE AIR FORCE (cont'd)

AFM 67-1 is removed and (2) worthwhile improvements to the Management Control Activity function continue to be implemented.

Our specific comments are attached. Contact Mr. Eric Kattner, SAF/AQCP, 703-695-4982, if there are any questions.



DANIEL S. RAK
Deputy Assistant Secretary
(Acquisition)

1 Atch
Air Force Comments

Air Force Comments
on
DOD(IG) Draft Report,
Government Property in the Possession of Contractors,
April 10, 1992 (Project No. OCA-0047)

RECOMMENDATION 1:

That the Assistant Secretary of the Army (Research, Development and Acquisition), the Assistant Secretary of the Navy (Research, Development and Acquisition), the Assistant Secretary of the Air Force (Acquisition), and the Director, Defense Logistics Agency task their Commands and field activities to fully implement the appropriate property initiatives, as outlined below and in Appendix B, and initiate procedures to monitor their progress.

(a) Army - Property initiatives 1, 2, 6, 7, 9, 10, 11, 12, 16, 17, 22 through 26, and 30.

(b) Navy - Property initiatives 1, 2, 6, 7, 8, 9, 11, 12, 22, 24, 25, and 26.

(c) Air Force - Property initiatives 1, 2, 7, 8, 9, 11, 12, 13, 16, 17, 22 through 26.

(d) Defense Logistics Agency - Property initiatives 1, 2, 7, 8, 9, 11, 12, 16, 18 through 22, 24, 25, and 26.

AIR FORCE COMMENTS:

Nonconcur. We do not see any benefit to reconstituting actions under the 1986 USD(A) memorandum. First, we disagree that there was widespread noncompliance as suggested by the audit report. And second, we believe that any action taken at this point should be based on an assessment of current day problems or risks, not those of five years ago and before. We are prepared to undertake such a assessment and then initiate appropriate actions. This is considered a reasonable alternative to Recommendation 1. We offer the following comments regarding those actions under the 1986 USD(A) memorandum reported as not fully implemented.

Initiatives 1 and 2. The Air Force issued direction to AFSC and AFLC to ensure compliance with current policies and established a tracking system to enable us to report quarterly to OSD on all actions related to the 1986 USD(A) memorandum. Further direction was sent to field activities by AFSC and AFLC. The commands used a variety of techniques to reinforce current and new policies and to check compliance, including policy letters, briefings,

Deleted.

staff visits, and the preparation of checklists for use by command IGs. Further action is unnecessary under the 1986 USD(A) memorandum or this audit.

Initiatives 7 and 8. Significant effort was made to identify and dispose of unneeded Special Tooling and Special Test Equipment. Policy was changed to preclude further use of no-cost storage agreements; a time-phased review of existing agreements was pursued; when we last reported to OSD all but 14 of approximately 300 agreements had been reviewed and eliminated. We reported to OSD quarterly the exact status of the review, including the acquisition cost and the number of line items of ST and STE disposed of and retained by AFLC. We are unaware of any instance wherein the Air Force purposely reported erroneous information to OSD. Regarding storage contract F34601-87-H-0042 awarded in Mar 1987, AFLC advises it was awarded before the policy change on no-cost storage agreements had been fully disseminated; it has since been closed out. AFLC also advises that its last two no-cost storage agreements (456 items valued at \$2M) are currently under review with action scheduled to be completed in July 1992. At last count, 118,000 items of ST/STE (valued at \$121M) have been retained by AFLC, primarily at government storage locations, while 139,500 items of ST/STE (valued at \$136M) have been dispositioned.

Initiative 9. Air Force completed all action to improve the management of Special Tooling (ST). We worked with the DAR Council to secure approval of DAR Case 85-241 and publication of a new ST clause in the FAR in 1989. The DAR Council later decided to issue a deviation reversing the work done under this case due to concerns expressed by industry about the cost to comply with the new clause. In this situation there was no implementation action the field could take. In our view, it is misleading for the audit report to state that the field did not implement the new clause. We have continued to work with the DAR Council and the Civilian Agency Acquisition Council to further improve the ST clause. Action is proceeding under the Defense Acquisition Regulatory System and, therefore, no action remains under the 1986 USD(A) memorandum or this audit.

Initiative 11. The audit report states that the Air Force did not implement actions under DoD(IG) report 84-032. In actuality, Air Force actions required under report 84-032 were completed before the 1986 USD(A) memorandum was issued. We reject the finding that Air Force field activities failed to implement this initiative since there was no action to be taken.

Initiative 12. Management Control Activities (MCAs) have been in place and operating in the Air Force for over ten years limiting contractor access to the DoD supply system. Requisitions from maintenance and

production contractors are routinely validated before Government-Furnished Material is shipped from the depots. Changes in MILSTRIP procedures relevant to implementation of DODI 4140.48 have been implemented in the Air Force. We agree with the auditors that there are improvements or refinements which can be made; this is always the case. However, all things considered, we reject the conclusion that this action was only partially implemented by the Air Force and do not agree with the recommendation that further action under the 1986 USD(A) memorandum or this audit is necessary.

Initiative 13. The report incorrectly states that the Services and DLA were to establish a formal process for assessing risks in the GFM area, including criminal violations. The task in the 1986 USD(A) memorandum was to take all appropriate action when unauthorized access by contractors into the DOD supply system is found. We reported to OSD that our contract administration activities routinely check contractor compliance with GFM management requirements and insist on corrective actions when deficiencies are found. We indicated further that suspected criminal activity is reported to resident agents of the Air Force Office of Special Investigations at the AFPROs. In addition, AFLC item manager personnel are alert to suspected misappropriation of GFM. And finally, we told OSD that systemic deficiencies deemed to be internal control weaknesses will be reported through separate procedures established under the Federal Managers' Financial Integrity Act. We believe our response was fully compliant with the requirement in the 1986 USD(A) memorandum and do not agree with the audit conclusion that the Air Force did not fully implement this requirement.

Initiatives 16 and 17. The report states that the Air Force did not eliminate storage and maintenance costs at inactive GOCOs nor dispose of them. At the time of the 1986 USD(A) memorandum, the Air Force had one inactive GOCO or, more precisely, a plant in caretaker status pending disposition by public sale by the General Services Administration. At this point, the plant has been withdrawn from the sales block and action is underway to transfer the plant from the Air Force to the Army National Guard. We disagree with the characterization that Air Force implementation was only partial and disagree that further action is necessary under the USD(A) memorandum or this audit.

Initiative 22. The Services were directed to review all contracts with property and to dispose of property not required. In late 1986 and early 1987 there was much discussion about how best to implement this action recognizing the limited resources available to accomplish day to day property management responsibilities concurrent with such a special review. For example, at the AFPROs under AFCMD it was concluded that this review could be best implemented by intensifying the Government's surveillance of

MANAGEMENT COMMENTS - DEPARTMENT OF THE AIR FORCE (cont'd)

Final Report
Reference

contractor's identification and disposal of excess property. Special reviews were conducted using expanded sampling techniques. As a result, disposals within AFCMD increased significantly between 1987 and 1988; from \$211 million to \$429 million. We believe the actions taken here were responsible and effective. We discount the auditors conclusion that the field response was business as usual and that the 1986 USD(A) memorandum was not implemented.

Initiatives 23 and 24. These actions dealt with identifying unneeded GOCOs and the sale of GOCOs determined to be excess to ownership. We agree with the auditors' observation that none of the GOCOs was sold. We believe that the primary reason was the absence of willing buyers, not the absence of a concerted effort by the Air Force. Alternatives to sale were also evaluated. The strategy now being pursued involves sales negotiations at certain locations, leasing at other GOCOs on an interim basis until sales can be negotiated or Air Force work is phased out, and leasing at other GOCOs for long-term retention. This an ongoing effort that need not be monitored under the 1986 USD(A) memorandum or this audit.

Initiative 25. This action under the 1986 USD(A) memorandum dealt with the elimination of unallowable profits/fees paid to contractors acquiring facilities for the account of the Government. Both AFSC and AFLC tasked their field activities to review this matter and they reported that the action was completed. The key issue was profit/fee on other than facilities contract. Following the 1986 USD(A) memorandum, a change in policy was implemented in the FAR to expressly prohibit the payment of profit/fee on the cost of facilities regardless of type of contract used to reimburse the costs of the facilities. Our view remains that prior to issuance of the new policy the payment of profit/fee was allowed. No further action is considered appropriate under the 1986 USD(A) memorandum or this audit.

Initiative 26. This action related to implementation of financial accounting for Government property in the hands of contractors. Air Force efforts to develop an implementation methodology in the Air Force which could be exported to the other Services and DLA were halted when all implementation responsibility was assumed by OSD's Corporate Information Management Task Group for GFM under the leadership of OSD(C). It is inappropriate to indict the Air Force for not implementing this item.

RECOMMENDATION 2:

That the Assistant Secretary of the Army (Research, Development and Acquisition), the Assistant Secretary of the Navy (Research, Development and Acquisition), the Assistant Secretary of the Air Force (Acquisition), and the Director, Defense Logistics Agency:

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Deleted.

(a) Develop procedures for conducting inspections of contracting officers, contract administration offices, and property administrators to verify that assigned tasks related to property management, particularly those related to the property initiatives, are performed.

Deleted.

(b) Track the implementation of property initiatives by requiring field activities to report actions taken on all applicable initiatives and by maintaining documentation that is available for audit or command review.

Deleted.

(c) Initiate disciplinary action against officials who misrepresented the status of the implementation of the property initiatives to the Office of the Assistant Secretary of Defense (Production and Logistics).

Deleted.

AIR FORCE COMMENTS:

Nonconcur. Regarding parts (a) and (b) of Recommendation 2, see our comments to Recommendation 1. Regarding part (c) we must reiterate our view that a sincere and comprehensive effort was made to implement the 1986 USD(A) memorandum. We detected no instances of AFSC or AFLC reporting erroneous information or misrepresenting the status of implementation of the 1986 USD(A) memorandum. Based on what we know, we find your recommendation to initiate disciplinary action inappropriate and plan no such action.

RECOMMENDATION 3:

That the Assistant Secretary of Defense (Production and Logistics) monitor compliance and report to the Under Secretary of Defense for Acquisition on the Military Departments and the Defense Logistics Agency implementation of the property initiatives.

Recommendatio
deleted.

AIR FORCE COMMENTS:

Nonconcur. At this point, DoD's emphasis and actions should be forward-looking. The productive alternative to resuscitating the 1986 USD(A) memorandum is to assess today's property management risks and then to pursue appropriate, well-defined courses of action to reduce any high risks to acceptable levels.

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MANAGEMENT COMMENTS - DEFENSE LOGISTICS AGENCY



DEFENSE LOGISTICS AGENCY
HEADQUARTERS
CAMERON STATION
ALEXANDRIA, VIRGINIA 22304-6100



24 JUN 1992

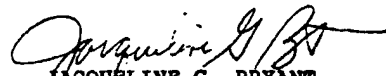
IN REPLY
REFER TO
DLA-CI

MEMORANDUM FOR DEPUTY ASSISTANT INSPECTOR GENERAL FOR AUDITING,
DEPARTMENT OF DEFENSE

SUBJECT: DoD IG Draft Report on Government Property in the
Possession of Contractors (Project No. OCA-0047),
dated 10 April 92

Enclosed are responses to the subject draft report. The enclosed
positions have been approved by Ms. Helen T. McCoy, Deputy
Comptroller, Defense Logistics Agency.

4 Encl
w/11 Attachments *


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

* The attachments were not included because of their length.

MANAGEMENT COMMENTS - DEFENSE LOGISTICS AGENCY (cont'd)

FORMAT 1 OF 3

DATE OF POSITION: 18 Jun 92

TYPE OF REPORT: AUDIT

PURPOSE OF INPUT: INITIAL POSITION

AUDIT TITLE AND #: Draft Report on Government Property in the Possession of Contractors (Project No. OCA-0047)

FINDING: MANAGEMENT OF GOVERNMENT PROPERTY

DoD activities did not fully implement 20 property initiatives for managing Government property in the possession of Defense contractors. These initiatives pertain to identifying and disposing of unneeded property, storing and retaining essential property, and managing Government property. This condition existed because the Military Departments and DLA did not adequately task their commands or provide guidance to the field activities; did not establish an effective internal control system to monitor and follow-up on implementation of the initiatives; and did not accurately report on the field activities' status of the implementation of the initiatives to the Office of the ASD(P&L). As a result, contracts were not reviewed for retention or disposal of property; 'no cost' storage agreements were not eliminated; excess levels of industrial plant equipment were not removed from storage; and reliable data on the amount of Government property in the possession of contractors were not maintained.

DLA COMMENTS: Partially concur. Based on our knowledge of government property and how we chose to implement the Godwin Memorandum, DLA did adequately task the DSCs and provide guidance through our letter of 29 May 87 on implementing the Godwin Memorandum (Enclosure 1). The DSCs reported the results of their reviews (Enclosure 2) and those results were reported to OASD (P&L) (Enclosure 3). Specific details as they relate to the IG comments are addressed in the DLA comments on the initiatives. DLA does not agree with the finding as it relates to the DLA role in the administration of government property in the custody of defense contractors. Under the finding subelement of the draft report entitled 'Identification and disposal of unneeded property', the IG indicates that all 'property bearing' contracts were not adequately reviewed to identify and dispose of unneeded or excess property. The IG further states this occurred because the activities were never tasked to review all contracts but were expected to achieve the review on only a sample basis. Our 4 Feb 87 and 20 May 87 letters to the Defense Contract Administration Service Regions (DCASRs) (now called Defense Contract Management Districts (DCMDs)), contained complete and clear guidance on how DLA expected the USD(A) memorandum to be implemented, to include the tasking to review all contracts (Enclosures 4 and 5). Then, as the deadline for the 'onetime' review of all contracts drew near, DLA issued final instructions in a letter dated 22 Feb 88 on how to prepare a final report on their review (Enclosure 6).

The IG goes on to indicate that the field activities reported that they considered the review of all contracts was not achievable. None

MANAGEMENT COMMENTS - DEFENSE LOGISTICS AGENCY (cont'd)

of our field activities ever relayed to DLA HQ that they considered the review a non-achievable task. For a specific follow-up system to monitor the implementation of the USD(A) memorandum, DLA HQ turned to the DCMD staff to carry out the details of the USD(A) tasking and to ensure compliance. Regarding the accuracy of reporting on the field activities' status on the initiatives to the Office of the ASD(P&L), DLA HQ reported the information that was submitted from those activities. The field's reports stated that the review had been completed (Enclosure 7).

DISPOSITION:

- () Action is ongoing. Estimated Completion Date
- (X) Action is considered complete.

INTERNAL MANAGEMENT CONTROL WEAKNESSES (IMCs): None. DLA implemented the Godwin Memorandum based on the information we had at that time. This is not to say that there may have been a better way to do it. The field activities were tasked to implement those aspects of the Godwin memorandum that were applicable, reported back to us the results of their reviews, and we reported those results to OASD(P&L).

IF IMCs WERE IDENTIFIED IN REPORT:

- () NONCONCUR.
- (X) CONCUR; however, weakness is not considered material.
- () CONCUR; weakness is material and will be reported in the DLA Annual Statement of Assurance.

RECOMMENDATION MONETARY BENEFITS: (WHERE APPLICABLE)

DLA COMMENTS: None
ESTIMATED REALIZATION DATE: N/A
AMOUNT REALIZED: N/A
DATE REALIZED: N/A

ACTION OFFICER: John R. King, DLA-PRS, x46451
DLA APPROVAL: Helen T. McCoy, Deputy Comptroller

MANAGEMENT COMMENTS - DEFENSE LOGISTICS AGENCY (cont'd)

Final Report
Reference

FORMAT 2 OF 3

DATE OF POSITION: 18 Jun 92

TYPE OF REPORT: AUDIT

PURPOSE OF INPUT: INITIAL POSITION

AUDIT TITLE AND #: Draft Report on Government Property in the Possession of Contractors (Project No. OCA-0047)

Deleted.

RECOMMENDATION 1: We recommend that the Assistant Secretary of the Army (Research, Development and Acquisition), the Assistant Secretary of the Navy (Research, Development and Acquisition), the Assistant Secretary of the Air Force (Acquisition), and the Director, Defense Logistics Agency task their Commands and field activities to fully implement the appropriate property initiatives, as outlined below and in Appendix B, and initiate procedures to monitor their progress.

a. Defense Logistics Agency - Property initiatives:

No. 1 Ensure compliance with existing policies

The Military Departments and DLA were to place more discipline in the implementation of existing policies. Audit results showed that the Military Departments and DLA failed to ensure compliance with existing policies and regulations. 'NOT IMPLEMENTED'

DLA COMMENTS: Partially concur. On 29 May 87, DLA-PR sent a letter to the Directors of Contracting and Production at the DSCs, which forwarded the Godwin policy letter, dated 25 Nov 86 for their immediate implementation and action. The letter also provided specific guidance and action items that were necessary for compliance with the Godwin policies. These actions were placed into the proper blocks on the initiatives chart after it was furnished and progress was tracked and reported accordingly. No formal tracking of the DSCs actions (in regard to implementation of the DLA guidance) was setup because DLA officers was felt it was not necessary. The DSCs did report completion of the assigned tasks and progress has been made. The amount of DLA owned property in the hands of contractors has decreased from \$240.9 million at the end of FY 89 to \$217.9 million at the end of FY 91 (Enclosure 7).

We agree that a structured follow-up system was not established to assure compliance with the specific USD(A) initiatives. However, DLA considers ensuring compliance with all existing policies and regulations a continuous process. The DLA staff accomplishes this in their staff assistance visit (SAV) program whereby they periodically visit the Defense Contract Management Districts (DCMDs), Defense Contract Management Area Offices (DCMAOs), and Defense Plant Representative Offices (DPROs). During these visits the staff monitors compliance with all contract administration policies and regulations to include the property provisions of the Federal Acquisition Regulation, the Defense Federal Acquisition Regulation Supplement, and the various implementing DoD and DLA regulations and manuals.

MANAGEMENT COMMENTS - DEFENSE LOGISTICS AGENCY (cont'd)

The DCMD staffs also conduct SAVs to ensure compliance with existing policies by subordinate elements. During SAVs that have taken place since the USD(A) memorandum was issued, DLA has emphasized the importance of the USD(A) memorandum, especially the requirement to assure that contractors have a property control system adequate to identify excess property. Our SAV program is still ongoing and we will continue to stress compliance with all contract property management regulations and requirements.

DISPOSITION:

- () Action is ongoing. Estimated Completion Date
- (X) Action is considered complete.

INTERNAL MANAGEMENT CONTROL WEAKNESSES (IMCs): None. We consider the initiative to have been adequately tasked and implemented. Progress has been made in reducing the amount of property in the hands of contractors by DLA.

IF IMCs WERE IDENTIFIED IN REPORT:

- (X) NONCONCUR.
- () CONCUR; however, weakness is not considered material.
- () CONCUR; weakness is material and will be reported in the DLA Annual Statement of Assurance.

RECOMMENDATION MONETARY BENEFITS: (WHERE APPLICABLE)

DLA COMMENTS: None
ESTIMATED REALIZATION DATE: N/A
AMOUNT REALIZED: N/A
DATE REALIZED: N/A

ACTION OFFICER: John R. King, DLA-PRS, x46451
DLA APPROVAL: Helen T. McCoy, Deputy Comptroller

MANAGEMENT COMMENTS - DEFENSE LOGISTICS AGENCY (cont'd)

NO. 2 Establish mechanism to track implementation of USD(A)
Memorandum of November 23, 1986

The Military Departments and DLA were required to track improvements on a regular basis through various forums, including the Defense Council on Integrity and Management Improvements, as appropriate. Audit results showed that the Military Departments and DLA established tracking systems and reported on the progress of the initiatives on a regular basis to the Office of the ASD (P&L). However, the Departments and Agencies failed to adequately task and monitor the implementation of the initiatives by major or subordinate commands and by the field activities. In addition, certain initiatives that had not been implemented were erroneously reported as completed or closed. 'PARTIALLY IMPLEMENTED'

DLA COMMENTS: Nonconcur. The DSCs were tasked by the 29 May 87 letter (Enclosure 1) to implement the Godwin memorandum. Specific guidance and action items were included, which the DLA staff felt were necessary to comply with the Godwin memorandum. Subsequent to this tasking the Assistant Secretary of Defense for Production & Logistics sent out the Government Property Initiatives Chart which was used to report DLA implementation status to OSD. The Initiatives Chart was never furnished to the field activities, because the initiatives were not all applicable to any one activity and it was not considered necessary. The DSCs were queried to verify status when appropriate to prepare quarterly reports to OSD. The DSCs reported when actions had been completed.

Regarding DLA's contract property management field offices, our 4 Feb and 20 May 87 (Enclosures 4 and 5) taskings to the DCASRs clearly indicated what was expected to implement the USD(A) memorandum. It was never DLA's intention for field elements to set up a tracking mechanism for all 30 initiatives, since only a few initiatives directly impacted on contract administration offices.

The area of the USD(A) memorandum that the DLA staff determined to be most crucial was the "one time" review of all contracts with Government property in order to identify and dispose of all excess property. DLA indicated in its guidance that the most practical time to accomplish this review was in conjunction with the annual system surveys, with the property administrators reviewing all contracts. Then, as the deadline for the "one time" review of all contracts drew near, we issued final instructions on 22 Feb 88 (enclosure 6). As a result, all the DCASRs reported completion of the review.

When the IG stated that several locations had not completed the reviews, the DLA HQ staff again queried the DCASRs who repeated their assurances that all contracts (at the locations in question) had been reviewed. After further inquiries, DLA did find two locations where not all contracts had been reviewed. Subsequently, these contracts were reviewed. DLA never intentionally reported erroneous data regarding the completion or close out of any initiative. We will address the "onetime" review is discussed further under Initiative No. 22.

MANAGEMENT COMMENTS - DEFENSE LOGISTICS AGENCY (cont'd)

DISPOSITION:

- Action is ongoing. Estimated Completion Date
- Action is considered complete.

INTERNAL MANAGEMENT CONTROL WEAKNESSES (IMCs): None. We considered the controls placed on the DSCs were adequate to complete the assigned tasks resulting from the Godwin Memorandum.

IF IMCs WERE IDENTIFIED IN REPORT:

- NONCONCUR.
- CONCUR; however, weakness is not considered material.
- CONCUR; weakness is material and will be reported in the DLA Annual Statement of Assurance.

RECOMMENDATION MONETARY BENEFITS: (WHERE APPLICABLE)

DLA COMMENTS: None
ESTIMATED REALIZATION DATE: N/A
AMOUNT REALIZED: N/A
DATE REALIZED: N/A

ACTION OFFICER: John R. King, DLA-PRS, x46451
DLA APPROVAL: Helen T. McCoy, Deputy Comptroller

MANAGEMENT COMMENTS - DEFENSE LOGISTICS AGENCY (cont'd)

NO. 7 Dispose of unneeded ST and STE; justify continued storage; review annually for disposal

The Military Departments and DLA shall promptly dispose of unneeded ST and STE from contractors locations of Government storage and shall modify storage agreements. (Also see Initiative Number 8.) Audit results showed that the Military Departments and DLA adequately tasked field-level activities to implement this initiative. However, the Military Departments and DLA field activities have not disposed of unneeded ST and STE. 'PARTIALLY IMPLEMENTED'

DLA COMMENTS: Nonconcur. Disposition of ST/STE is a continual process and as a result there will always be excess or unneeded ST/STE in the hands of the contractors. This is partially due to changing requirements. The implementing guidance furnished to the DSCs on 29 May 87 tasked DLA field activities (Enclosure 1) to review all ST/STE and to dispose of all unneeded equipment, justify storage, and to annually screen and inventory all ST/STE in the DLA Industrial Equipment Reserve (DLAIER). Data indicate that the DSCs have made progress in reducing the amount of ST/STE in the hands of contractors. In FY 88, DLA had \$14.0 million ST/STE which was reduced to \$4.2 million at the end of FY 91. The DSCs will continue to annually screen and justify ST/STE in the DLAIER.

The DCASRs, as part of their 'one time' contract-by-contract review (Initiative No. 22), looked at all classifications of property for unneeded/excess property. ST/STE for which retention was not justified was disposed of through plant clearance. Annually, during the performance of regularly scheduled property system surveys, DLA property administrators review the utilization of ST and STE to determine if retention is justified. If not justified for retention, the contractor is advised to report the unneeded/excess ST/STE for disposal action. However, the final disposition authority rests with the military departments that contractually authorized the ST/STE.

DISPOSITION:

- () Action is ongoing. Estimated Completion Date
- (X) Action is considered complete.

INTERNAL MANAGEMENT CONTROL WEAKNESSES (IMCs): None. Data reflect that progress has been made by the DSCs in reducing the amount of ST/STE in the hands of contractors.

IF IMCs WERE IDENTIFIED IN REPORT:

- (X) NONCONCUR.
- () CONCUR; however, weakness is not considered material.
- () CONCUR; weakness is material and will be reported in the DLA Annual Statement of Assurance.

MANAGEMENT COMMENTS - DEFENSE LOGISTICS AGENCY (cont'd)

RECOMMENDATION MONETARY BENEFITS: (WHERE APPLICABLE)

DLA COMMENTS: None

ESTIMATED REALIZATION DATE: N/A

AMOUNT REALIZED: N/A

DATE REALIZED: N/A

ACTION OFFICER: John R. King, DLA-PRS, x46451

DLA APPROVAL: Helen T. McCoy, Deputy Comptroller

NO. 8 Eliminate 'No-Cost Storage Agreements'

The Military Departments and DLA were to cease using 'no-cost' storage agreements. All storage agreements were to be separately priced and directly funded. The Military Departments and DLA were to require justification for continued storage and to establish procedures for annual screening for retention or disposal. Any property identified as excess was to be disposed of on an expedited basis. The Army eliminated 'no-cost' storage agreements; however, the Navy, Air Force, and DLA did not. In addition, the Navy, Air Force, and DLA have not separately priced or directly funded the storage agreements. For example, the Navy and Air Force awarded no-cost storage agreement number N00019-90-E-9004, 2 Feb 90, and F34601-87-E-0042, 16 Mar 87, respectively for ST/STE storage. The DLA awarded no-cost storage agreement number DLA500-92-C-1706, 11 Dec 91, for the storage of silver bullion. 'PARTIALLY IMPLEMENTED'

DLA COMMENTS: Partially concur. The DSCs reported 17 'no-cost storage agreements' which were converted to funded storage agreements or abolished when excess property was sold. Seven agreements were abolished when the property was disposed/sold, three were changed to funded storage agreements, three were made production contracts, two were changed to facilities contracts, and two were moved to government storage. The cited contract was not part of the scope of this audit nor one of the activities visited and is not GFM in the sense of material being furnished for performance of a production contract.

Defense Industrial Supply Center (DISC) advises that its staff has taken action to terminate their 'no-cost' storage agreement, Contract Number DLA500-92-C-1706, effective 23 Jul 92. No action has been taken to remove silver from the storage contractor's possession for the following reasons:

(1) DISC wishes to settle outstanding production contracts where silver is owed to the Government or to the storage contractor by using the residual balances in the storage contractor's possession. A letter has been written to the storage contractor requesting that this action be taken. DISC is waiting for a written response before the next step can be taken.

(2) DISC expects a requisition from Ships Parts Control Center for a quantity of silver in excess of 520,000 troy ounces, enough to 'zero out' any remaining balance at the storage contractor. This initiative is primarily directed at the Military Department and DLA Procuring activities to eliminate 'no-cost' storage agreements. However, the DCASRs, as part of their 'one time' contract-by-contract review (Initiative No. 22) were alert to property that was being maintained on 'no-cost' storage agreements and queried the procuring activities as to whether this property was to be transferred to a funded agreement or whether it should be disposed of through plant clearance.

MANAGEMENT COMMENTS - DEFENSE LOGISTICS AGENCY (cont'd)

DISPOSITION:

- (X) Action is ongoing. Estimated Completion Date: 1 Sep 92
- () Action is considered complete.

INTERNAL MANAGEMENT CONTROL WEAKNESSES (IMCs): None. All no cost storage agreements have been eliminated. All rationale must be documented)

IF IMCs WERE IDENTIFIED IN REPORT:

- () NONCONCUR.
- (X) CONCUR; however, weakness is not considered material.
- () CONCUR; weakness is material and will be reported in the DLA Annual Statement of Assurance.

RECOMMENDATION MONETARY BENEFITS: (WHERE APPLICABLE)

DLA COMMENTS: None
ESTIMATED REALIZATION DATE: N/A
AMOUNT REALIZED: N/A
DATE REALIZED: N/A

ACTION OFFICER: John R. King, DLA-PRS, x46451
DLA APPROVAL: Helen T. McCoy, Deputy Comptroller

MANAGEMENT COMMENTS - DEFENSE LOGISTICS AGENCY (cont'd)

NO. 9 Improve the acquisition, management, and disposal of ST
(Defense Acquisition Regulation Case - 85-241)

The initiative required that the Military Departments and DLA improve their overall acquisition, management, and disposition of Government-owned ST. The audit showed that management over ST did improve. For example, Air Force revised AFB 78-3 'Special Tooling Management Program' to improve acquisition, management, and disposition of Government-owned ST. However, field activities did not fully implement the initiative. 'PARTIALLY IMPLEMENTED'

DLA COMMENTS: Partially concur. Guidance was furnished to the DSCs to review all ST/STE, identify the need for it, and dispose of all unneeded ST/STE. The DSCs have reduced the amount of ST/STE in the hands of contractors. DLA's rewrite of DLAR 4215.4 has been held in abeyance pending the revision of DoDD 4275.5 by OSD.

Improving the acquisition, management, and disposal of ST is a continuing effort. During the performance of our annual property control system surveys, we evaluate these areas to ensure that the contractor is complying with his approved property control system. Defense Acquisition Regulation (DAR) Case 85-241 dealing with ST/STE has been modified and replaced by DAR Case 90-018. The Defense Acquisition Regulatory Council has approved the revised case and has forwarded it to the Civilian Agency Acquisition Council (CAAC). Upon approval of the case by the CAAC and its publication in the FAR, the overall controls over the acquisition, management, and disposal of ST should be greatly enhanced.

DISPOSITION:

- () Action is ongoing. Estimated Completion Date
- (X) Action is considered complete.

INTERNAL MANAGEMENT CONTROL WEAKNESSES (IMCs): None. The DSCs reviewed and have reduced the amount of ST/STE in the hands of contractors. IF IMCs WERE IDENTIFIED IN REPORT:

- () NONCONCUR.
- (X) CONCUR; however, weakness is not considered material.
- () CONCUR; weakness is material and will be reported in the DLA Annual Statement of Assurance.

RECOMMENDATION MONETARY BENEFITS: (WHERE APPLICABLE)

DLA COMMENTS: None
ESTIMATED REALIZATION DATE: N/A
AMOUNT REALIZED: N/A
DATE REALIZED: N/A

ACTION OFFICER: John R. King, DLA-PRS, x46451
DLA APPROVAL: Helen T. McCoy, Deputy Comptroller

MANAGEMENT COMMENTS - DEFENSE LOGISTICS AGENCY (cont'd)

NO. 11 Complete actions under IG, DoD Report No. 84-032

Inspector General, DoD Report No. 84-032, 'Government-Furnished Material at DoD Production Contractors,' 2 Feb 84, identified management problems in the area of Government-Furnished Material (GFM). The Military Departments and DLA were to give priority attention to correct all systemic problems in his area. Audit results showed that the Army and Air Force field activities did not implement the initiative, and it was only partially implemented by the Navy and DLA. Generally, the sites visited were aware of the requirement to correct the systemic problem of excess GFM at contractors, which was highlighted by Report No. 84-032. Further, the Navy established on-line capability to review material status and implemented a reapplication process for excess repair parts. Also, DLA performed a review to determine whether a substantial amount of GFM existed at contractor sites. However, our review showed that the Naval Supply Systems Command did not task subordinate commands to implement this initiative, and the DLA did not review all contracts to complete actions under this initiative. 'PARTIALLY IMPLEMENTED'

DLA COMMENTS: Nonconcur. DLA complied fully with the IG report recommendations as implemented by the Deputy Under Secretary of Defense (Acquisition Management). Office of the Under Secretary of Defense, Research and Engineering (OUSD(R&E)) memorandum of 11 Apr 84 (Enclosure 9), required the Military Departments and DLA to select prime contracts with \$20 million or more of GFM on hand or currently due in under their administrative cognizance and to conduct a one time review. DLA identified 14 contracts with \$20 million or more in GFM on hand or due-in located at five different contractors. In coordination with OUSD(R&E), DLA selected five contracts for review. The five contracts were reviewed and no systemic or procedural deficiencies were disclosed. The workpapers for these five reviews are still on file at DLA HQ Contract Property Management Division, Contract Management Directorate (DLA-AM). All other actions required under IG Report No. 84-032 were also completed.

DISPOSITION:

- () Action is ongoing. Estimated Completion Date
- (X) Action is considered complete.

INTERNAL MANAGEMENT CONTROL WEAKNESSES (IMCs): (All rationale must be documented)

IF IMCs WERE IDENTIFIED IN REPORT:

- (X) NONCONCUR.
- () CONCUR; however, weakness is not considered material.
- () CONCUR; weakness is material and will be reported in the DLA Annual Statement of Assurance.

MANAGEMENT COMMENTS - DEFENSE LOGISTICS AGENCY (cont'd)

RECOMMENDATION MONETARY BENEFITS: (WHERE APPLICABLE)

DLA COMMENTS: None

ESTIMATED REALIZATION DATE: N/A

AMOUNT REALIZED: N/A

DATE REALIZED: N/A

ACTION OFFICER: Nelson Cahill, DLA-AMP, x47607

DLA APPROVAL: Helen T. McCoy, Deputy Comptroller

MANAGEMENT COMMENTS - DEFENSE LOGISTICS AGENCY (cont'd)

NO. 12 Complete full implementation of DoD Instruction 4140.48, 'Control of Access to DoD Material Inventories Required by Defense Contracts,' stop unauthorized access to DoD supply system for GFM

The Military Departments and DLA were to fully implement DoD Instruction 4140.48, 'Control of Access to DoD Material Inventories Required by Defense Contractors,' dated March 6, 1986, to control Defense contractors access to DoD materiel inventories and to investigate unauthorized access. The Audit showed that the Military Departments and DLA did not fully implement the control over Defense contractors access to DoD materiel inventories. The audit showed that management control activities have been identified. However, significant problems exist that prevented full operation of the management control activities. For example, the Army is not fully monitoring contractor requisitions, and all documents are not reviewed to determine whether the items are authorized. Also, the Navy is experiencing access control and communication interface problems between supply sources and contractor locations. Further, the Naval Supply System Command reported that automated capability changes are required to achieve implementation. Also, the Air Force has editing problems related to monitoring the contractor requisition practice. 'PARTIALLY IMPLEMENTED'

DLA COMMENTS: Nonconcur. DLA put into effect the requirements of DoDI 4140.48 through the implementation of approved MILSTRIP Change 1, 'Control of Access to DoD Materiel Inventories Required by Defense Contractors.' DLA implementation was in two phases.

o Phase one was the establishment of DLA Management Control Activities (MCAs) to control and validate DLA contractor requisitions against DLA contracts that authorize GFM. In this regard, DLA personnel input the GFM requisition on behalf of the contractor and these requisitions must be mechanically validated against the appropriate MCA file prior to the supply source processing the requisition. DLA MCA files contain, by contract, the contractor DODAAC, authorized materiel, as well as the National Stock Numbers and applicable quantities of materiel authorized. Establishment of these MCA files is accomplished in an on-line environment through secure password-protected remote devices. DLA implemented this phase in September 1990.

o Phase two, implemented in Jan 91, interfaces DLA's Defense Supply Centers (DSCs) with the Service MCAs for the purpose of validating Service contractor requisitions against Service contracts which authorize DLA items as GFM. In this regard, Service contractor requisitions for GFM are suspended upon receipt at our DSCs and an automated validation request is generated through DAAS to the appropriate Service MCA. DSCs subsequently process the Service GFM requisition in accordance with the disposition contained on the MCA validated response, or cancel if no response is received.

MANAGEMENT COMMENTS - DEFENSE LOGISTICS AGENCY (cont'd)

The DLA GFM validation process was centrally designed and implemented via changes to the DSC requisition processing application programs. The DLA staff knows of no shortfall in meeting the AMCL 1 requirements nor, are any documented in this IG report. Accordingly, action is considered complete.

DISPOSITION:

- () Action is ongoing. Estimated Completion Date
- (X) Action is considered complete.

INTERNAL MANAGEMENT CONTROL WEAKNESSES (IMCs): Nonconcur: Access to GFM files are password protected. Changes to the information contained in the files can be made by authorized personnel only and each time a change is made a transaction is created indicating the change made. These transactions are output periodically for appropriate management review.

IF IMCs WERE IDENTIFIED IN REPORT:

- (X) NONCONCUR.
- () CONCUR; however, weakness is not considered material.
- () CONCUR; weakness is material and will be reported in the DLA Annual Statement of Assurance.

RECOMMENDATION MONETARY BENEFITS: (WHERE APPLICABLE)

DLA COMMENTS: None
ESTIMATED REALIZATION DATE: N/A
AMOUNT REALIZED: N/A
DATE REALIZED: N/A

ACTION OFFICER: Robert Vitko, DLA-OSL, x46388
DLA APPROVAL: Helen T. McCoy, Deputy Comptroller

MANAGEMENT COMMENTS - DEFENSE LOGISTICS AGENCY (cont'd)

NO. 16 Eliminate storage and maintenance of inactive, non-essential GOCOs and equipment not in GOCOs

The initiative required that a detail review of the storage and maintenance of inactive GOCO plants and equipment not in GOCOs be performed. All inactive and nonessential property was to be removed from DoD inventory. The Military Departments partially implemented this initiative by executing a review of GOCOs, identifying nonessential inactive property and initiating action to eliminate some of the GOCOs. However, the Army and Air Force did not eliminate storage and maintenance of inactive GOCOs. DLA reported no GOCO plants. See Initiatives Numbers 23 and 24 for details. 'PARTIALLY IMPLEMENTED'

DLA COMMENTS: Nonconcur. At the time of the Godwin Memorandum, DLA had no GOCOs, as reported in our initiative status reports. On 1 Oct 88, the National Defense Stockpile (NDS) was transferred to the Secretary of Defense as National Defense Stockpile Manager (Enclosure 10). The William Langer Jewel Bearing Plant is a GOCO under NDS operations which came under DLA cognizance. The Langer plant is not an inactive, non-essential plant by DLA decision (Enclosure 11) and was not reported in its last status report because it did not meet the criteria of this initiative.

DISPOSITION:

- () Action is ongoing. Estimated Completion Date
- (X) Action is considered complete.

INTERNAL MANAGEMENT CONTROL WEAKNESSES (IMCs): None. As stated above the William Langer Plant did not come under the cognizance of DLA until late in the reporting cycle. It was not included because it is not inactive and non-essential.

IF IMCs WERE IDENTIFIED IN REPORT:

- (X) NONCONCUR.
- () CONCUR; however, weakness is not considered material.
- () CONCUR; weakness is material and will be reported in the DLA Annual Statement of Assurance.

RECOMMENDATION MONETARY BENEFITS: (WHERE APPLICABLE)

DLA COMMENTS: None
ESTIMATED REALIZATION DATE: N/A
AMOUNT REALIZED: N/A
DATE REALIZED: N/A

ACTION OFFICER: John R. King, DLA-PRS, x46451
DLA APPROVAL: Helen T. McCoy, Deputy Comptroller

MANAGEMENT COMMENTS - DEFENSE LOGISTICS AGENCY (cont'd)

NO. 18 Eliminate storage and maintenance of nonessential
General Reserve Industrial Plant Equipment (IPE)

The initiative requires that General Reserve IPE be reviewed in detail and that all but the most essential property be removed from DoD inventory. This initiative is not applicable to the Military Departments. The DLA reported to OSD that this initiative was complete. However, the review showed that nonessential IPE remains in the DLA inventory. 'NOT IMPLEMENTED'

DLA COMMENTS: Nonconcur. The report does not identify what the auditor considers to be nonessential IPE which remains in the DLA inventory. DLA reported that a detailed review of the General Reserve had started 1 Sep 84 and was completed 30 Jun 85. This satisfied the initiative requirement at that time and resulted in some 6,300 items being declared excess to DoD requirements. Routinely, annual reviews of the General Reserve are conducted against projected requirements. A major review conducted with the Military Services, is almost completed and indications are that several thousand items will become excess to DoD requirements. In summary, DLA management of the General Reserve is ongoing, as it has been since assignment to DLA.

DISPOSITION:

- () Action is ongoing. Estimated Completion Date
- (X) Action is considered complete for reporting purposes.

INTERNAL MANAGEMENT CONTROL WEAKNESSES (IMC#): (All rationale must be documented)

IF IMCs WERE IDENTIFIED IN REPORT:

- (X) NONCONCUR.
- () CONCUR; however, weakness is not considered material.
- () CONCUR; weakness is material and will be reported in the DLA Annual Statement of Assurance.

RECOMMENDATION MONETARY BENEFITS: (WHERE APPLICABLE)

DLA COMMENTS: None
ESTIMATED REALIZATION DATE: N/A
AMOUNT REALIZED: N/A
DATE REALIZED: N/A

ACTION OFFICER: Art Haywood, DLA-OWM, x46253
DLA APPROVAL: Helen T. McCoy, Deputy Comptroller

MANAGEMENT COMMENTS - DEFENSE LOGISTICS AGENCY (cont'd)

NO. 19 Bring general reserve IPE into ready-for-issue condition

The initiative requires that only essential IPE in a ready-to-issue condition be retained in the General Reserve. This initiative is not applicable to the Military Departments. For the DLA, the audit showed that IPE is not in a ready-to-issue condition. 'NOT IMPLEMENTED'

DLA COMMENTS: Concur. DLA initiated action to upgrade General Reserve asset to ready-for-issue condition within funding limitations in October 1986. The HAC report on the FY 88 DoD Appropriations Bill did not support funding the requirement. DLA has continued to support this effort as funds became available. Almost 900 items have been inducted into maintenance since this program started. Of these items, 534 have been used to satisfy existing Military Service requirements. So long as General Reserve items are reutilized during peacetime, replacement items will enter the inventory in not ready-for-issue condition.

DISPOSITION:

- (X) Action is ongoing. Estimated Completion Date: Indefinite.
- () Action is considered complete.

INTERNAL MANAGEMENT CONTROL WEAKNESSES (IMCs): (All rationale must be documented)

IF IMCs WERE IDENTIFIED IN REPORT:

- () NONCONCUR.
- (X) CONCUR; however, weakness is not considered material.
- () CONCUR; weakness is material and will be reported in the DLA Annual Statement of Assurance.

RECOMMENDATION MONETARY BENEFITS: (WHERE APPLICABLE)

DLA COMMENTS: None
ESTIMATED REALIZATION DATE: N/A
AMOUNT REALIZED: N/A
DATE REALIZED: N/A

ACTION OFFICER: Art Haywood, DLA-OWM, x46253
DLA APPROVAL: Helen T. McCoy, Deputy Comptroller

MANAGEMENT COMMENTS - DEFENSE LOGISTICS AGENCY (cont'd)

NO. 20 Eliminate storage and maintenance of nonessential Plant Equipment Packages (PEPs)

The initiative requires that PEPs be reviewed in detail and all but the most essential property be removed from DoD inventory. This initiative is not applicable to the Air Force and DLA. Further, the Army reduced nonessential PEPs, and the Navy is maintaining only active PEPs. 'IMPLEMENTED'

DLA COMMENTS: A DLA RESPONSE IS NOT NECESSARY!

NO. 21 Track and report storage and maintenance costs on all inactive equipment in PEPs

The Military Departments and DLA were to review in detail the storage and maintenance of inactive property in plant equipment packages. The ASD(P&L) was to be briefed within 3 months regarding the costs being incurred to store/retain each class of inactive property. The audit showed that this initiative is not applicable to the Air Force and DLA, and the Navy is maintaining only active PEPs. Also, the Army is tracking and reporting costs in accordance with Army Regulations 37-100 and 700-90. 'IMPLEMENTED'

DLA COMMENTS: A DLA RESPONSE IS NOT NECESSARY!

MANAGEMENT COMMENTS - DEFENSE LOGISTICS AGENCY (cont'd)

NO. 22 Review each property-bearing contract; dispose of property not required

Contract administration and contracting activities were to take immediate actions to review all contracts with Government property and dispose of all unneeded/excess property. The audit results showed that the Air Force, Navy and DLA reported to OSD that this initiative was complete; and the Army reported an in process review status. However, Air Force, Navy and DLA field activities documentation and reports issued to their respective Headquarters components disclosed that only a sample of contracts were reviewed. As a result, unneeded and excess property remain on property-bearing contracts. 'NOT IMPLEMENTED'

DLA COMMENTS: Nonconcur. We partially addressed this under Initiative No. 2. The guidance contained in our 4 Feb 87 and 20 May 87 letters (enclosures 4 and 5) was clear. At no time was DLA told that a contract-by-contract review was unachievable. While DLA HQ allowed the field activities to perform the contract-by-contract review in conjunction with the annual system survey (the most practical approach), our field activities were still required to review all contracts. For a single contract with a significant number of line items, sampling of the contract was permitted.

As pointed out in our response to Initiative No. 2 above, as the deadline for the 'one time' review of all contracts drew near, we issued final instructions in a letter dated 22 Feb 88 (Enclosure 6) and as a result, all our DCASRs (now DCMDs) reported completion of the review. When the IG identified locations where contracts were not reviewed, we again queried the DCMDs and received repeated assurances that all contracts at the locations in question were reviewed. After several inquiries of the DCMDs, the DLA HQ staff did find that a few contracts were inadvertently not reviewed at two locations. These contracts were then reviewed. The DLA HQ staff has repeatedly discussed the contract-by-contract review with numerous property administrators throughout the DCMDs. All indications are that review of all contracts has been completed.

DISPOSITION:

- () Action is ongoing. Estimated Completion Date
- (X) Action is considered complete.

INTERNAL MANAGEMENT CONTROL WEAKNESSES (IMCs): (All rationale must be documented)

IF IMCs WERE IDENTIFIED IN REPORT:

- (X) NONCONCUR.
- () CONCUR; however, weakness is not considered material.
- () CONCUR; weakness is material and will be reported in the DLA Annual Statement of Assurance.

MANAGEMENT COMMENTS - DEFENSE LOGISTICS AGENCY (cont'd)

RECOMMENDATION MONETARY BENEFITS: (WHERE APPLICABLE)

DLA COMMENTS: None

ESTIMATED REALIZATION DATE: N/A

AMOUNT REALIZED: N/A

DATE REALIZED: N/A

ACTION OFFICER: Nelson Cahill, DLA-AMP, x47607

DLA APPROVAL: Helen T. McCoy, Deputy Comptroller

MANAGEMENT COMMENTS - DEFENSE LOGISTICS AGENCY (cont'd)

NO. 24 Sell essential plants where ownership is not required;
update (ASD(P&L) on plans

The Military Departments and DLA were to identify GOCO facilities where continued ownership by the DoD is no longer essential. When the facilities are found to be essential for the operating contractors to continue performance of DoD programs, these facilities are candidates for negotiated sale by General Services Administration to the operating contractors. The Military Departments identified GOCO facilities where continued ownership by DoD was no longer essential. Further, the Military Departments identified 31 active-excess to ownership GOCOs (5 Army, 16 Navy, and 10 Air Force). Also, action was taken to sell plants where ownership was no longer essential. Additionally, the Military Departments initiated lease agreement negotiations for unsuccessful sales. DLA reported no GOCO plants. However, our review found that the William Langer Jewel Bearing Plant was a DLA GOCO and should have been devaluated under this initiative. 'PARTIALLY IMPLEMENTED'

DLA COMMENTS: Nonconcur. In Jun 87, after the Godwin Memorandum was issued and the reporting process had started, DLA did not have any GOCOs to report. In Jul 88, the National Defense Stockpile (NDS) was transferred to DLA; however, the William Langer Plant was not transferred to the Secretary of Defense as National Defense Stockpile Manager until 1 Oct 88, by P.L. 100-440. DLA's last report was submitted for the quarter ending 30 Sep 88 and the William Langer Plant was properly excluded at this stage -- because the plant was considered essential by the Stockpile manager and Director DLA.

DISPOSITION:

- () Action is ongoing. Estimated Completion Date
- (X) Action is considered complete.

INTERNAL MANAGEMENT CONTROL WEAKNESSES (IMCs): None. The plant is considered essential and as result did not need to be reported.

IF IMCs WERE IDENTIFIED IN REPORT:

- (X) NONCONCUR.
- () CONCUR; however, weakness is not considered material.
- () CONCUR; weakness is material and will be reported in the DLA Annual Statement of Assurance.

RECOMMENDATION MONETARY BENEFITS: (WHERE APPLICABLE)

DLA COMMENTS: None
ESTIMATED REALIZATION DATE: N/A
AMOUNT REALIZED: N/A
DATE REALIZED: N/A

ACTION OFFICER: John R. King, DLA-PRS, x46451
DLA APPROVAL: Helen T. McCoy, Deputy Comptroller

MANAGEMENT COMMENTS - DEFENSE LOGISTICS AGENCY (cont'd)

NO. 25 Eliminate unallowable profits/fees; recover those paid on open contracts

The Military Departments and DLA were to identify any profits or fees paid to contractors on a facilities contract. In addition, the components were to identify general purpose plant equipment that has been acquired by contractors on other than a facilities contract and determine if such equipment should have been furnished under a no-fee facilities contract. Actions were to be taken to recover any improper profits or fees on open contracts whenever it could be accomplished legally. The Military Departments and DLA reported full and partial compliance for this initiative to the Office of ASD(P&L). However, documentation was not available that would indicate the status of this initiative. Specifically, working papers or schedules were not available that would indicate the number and type of contracts reviewed, the amount of profit or fee, and specific action taken to recover improper profits or fees. Field-level activities of the Military Departments and DLA have not implemented this initiative. 'NOT IMPLEMENTED'

DLA COMMENTS: Nonconcur. DLA-PRS letter, 29 May 87 (Enclosure 1), provided implementing guidance to the DSCs. The DSCs were to review all facilities contracts to determine if any profits or fees had been paid to DLA contractors; identify any general plant equipment that was acquired on other than a facilities contract; determine if equipment should have been furnished under a no-fee facilities contract; recoup any profits or fees paid; and report their findings to DLA (copies are included in Enclosure 2). The DSCs reported that they had completed a review of all open contracts and found no evidence of unallowable profit or fee being paid.

DISPOSITION:

- () Action is ongoing. Estimated Completion Date
- (X) Action is considered complete.

INTERNAL MANAGEMENT CONTROL WEAKNESSES (IMCs): None. The DSCs were tasked to perform the review and reported back that they found nothing.

IF IMCs WERE IDENTIFIED IN REPORT:

- (X) NONCONCUR.
- () CONCUR; however, weakness is not considered material.
- () CONCUR; weakness is material and will be reported in the DLA Annual Statement of Assurance.

RECOMMENDATION MONETARY BENEFITS: (WHERE APPLICABLE)

DLA COMMENTS: None
ESTIMATED REALIZATION DATE: N/A
AMOUNT REALIZED: N/A
DATE REALIZED: N/A

ACTION OFFICER: John R. King, DLA-PRS, x46451
DLA APPROVAL: Helen T. McCoy, Deputy Comptroller

MANAGEMENT COMMENTS - DEFENSE LOGISTICS AGENCY (cont'd)

NO. 26 Fully implement financial accounting

The establishment of Financial Accounting Systems for Government-owned property was to be fully implemented in accordance with the individual milestones established for each of the Military Departments and DLA by the Comptroller of the DoD, no later than Oct 89. The Military Departments and DLA have not fully implemented this initiative. The Military Departments and DLA indicated to the ASD(PAL) that their revised milestone for full implementation of the Financial Accounting System will be achieved during mid-1992. 'NOT IMPLEMENTED'

DLA COMMENTS: Nonconcur. Since our last update on this action item, no DoD decision has been reached as to what the accounting system and scope of GFM control will be. As a result, until such time as a decision is reached, the implementation of an accounting system cannot be completed.

DISPOSITION:

(X) Action is ongoing. Estimated Completion Date: Implementation of this initiative is pending DoD(C) decision on a standard GFM accounting system. Consequently, this action should be referred to the DoD Comptroller.

() Action is considered complete.

INTERNAL MANAGEMENT CONTROL WEAKNESSES (IMCs): (All rationale must be documented)

IF IMCs WERE IDENTIFIED IN REPORT:

- (X) NONCONCUR.
- () CONCUR; however, weakness is not considered material.
- () CONCUR; weakness is material and will be reported in the DLA Annual Statement of Assurance.

RECOMMENDATION MONETARY BENEFITS: (WHERE APPLICABLE)

DLA COMMENTS: None
ESTIMATED REALIZATION DATE: N/A
AMOUNT REALIZED: N/A
DATE REALIZED: N/A

ACTION OFFICER: James O'Laughlin, DLA-CX, x46100
DLA APPROVAL: Helen T. McCoy, Deputy Comptroller

MANAGEMENT COMMENTS - DEFENSE LOGISTICS AGENCY (cont'd)

Final Report
Reference

FORMAT 3 OF 3

TYPE OF REPORT: AUDIT

DATE OF POSITION: 18 Jun 92

PURPOSE OF INPUT: INITIAL POSITION

AUDIT TITLE AND #: Draft Report on Government Property in the Possession of Contractors (Project No. OCA-0047)

RECOMMENDATION 2: We recommend that the Assistant Secretary of the Army (Research, Development and Acquisition), the Assistant Secretary of the Navy (Research, Development and Acquisition), the Assistant Secretary of the Air Force (Acquisition), and the Director, Defense Logistics Agency:

a. Develop procedures for conducting inspections of contracting officers, contract administrative officers, and property administrators to verify that assigned tasks related to property management, particularly those related to the property initiatives, are performed.

b. Track the implementation of property initiatives by requiring field activities to report actions taken on all applicable initiatives and by maintaining documentation that is available for audit or command review.

c. Initiate disciplinary action against officials who misrepresented the status of the implementation of the property initiatives to the Office of the Assistant Secretary of Defense (Production and Logistics).

DLA COMMENTS: Nonconcur. In response to recommendation 2.a., the DSCs are not authorizing the use of large amounts of property on DLA contracts. Adequate regulations and guidance are available to restrict the use of government furnished property on contracts. The DCMC property administrators have the tools at their disposal to detect abuses of government property by contractors, as well as unauthorized use by contracting officers and report it to the procuring activities.

The way we do property management has undergone extensive changes in the last few years. In December 1991, the DoD Manual for the Performance of Contract Property Administration, DoD 4161.2-M, was published. This manual is used as a tool by all involved parties to ensure an effective property management program.

The DLA Contract Property Administration Manual, DLAM 8135.1 is also being revised. The revised DLAM 8135.1 is scheduled to be published in early FY 93. The DLAM 8135.1 contains guidance on internal controls and a self evaluation checklist which is used by our property administrators and their supervisors to ensure effective property administration.

In addition to the SAV program (addressed in our response to Recommendation 1), DLA DCMDs also conduct SAVs of their subordinate

Deleted.

MANAGEMENT COMMENTS - DEFENSE LOGISTICS AGENCY (cont'd)

field activities (the DCMAOs and DPROs). DLA has also established a Performance Assessment Review (PAR) team. The team performs PARs of overall contractor functional and management performance. The PAR team may also be tasked to perform a Contract Management Review (CMR), which is an assessment of overall DPRO/DCMAO functional and management performance. In addition, the PAR team may be asked to perform Special Functional Reviews (SFRs), which are an assessment of specific functional areas or management performance at DPRO/DCMAOs or contractors.

In response to recommendation 2.b: It has been five and one half years since the USD(A) memorandum of 25 November 1986 was issued. Upon issuance of the USD(A) memorandum, DLA took action to comply with all the initiatives that were applicable to the various functional elements of DLA. The DLA HQ staff established a tracking mechanism to furnish ASD(P&L) quarterly reports on the implementation status. Based on reports received from our field activities, the intent of the USD(A) memorandum was fully implemented by DLA. The recommendation to task the field elements five and one half years later to again implement the USD(A) memorandum must be reconsidered relative to adequate results of the first effort, plus the cost effectiveness of reviewing approximately 4,700 contractors by requiring field activities to report actions taken on all applicable initiatives and by maintaining documentation that is available for audit or command review.

a. Initiate disciplinary action against officials who misrepresented the status of the implementation of the property initiatives to the Office of the Assistant Secretary of Defense (Production and Logistics).

In response to recommendation 2c: We have reviewed the draft report in its entirety and have not found any specifics or officials who intentionally misrepresented the status of the implementation of the property initiatives to the Office of the Assistant Secretary of Defense (Production and Logistics). The report is vague as to who and what was misrepresented.

Based on our firsthand knowledge of the extensive time spent by contract administration personnel and production personnel throughout DLA to implement the USD(A) memorandum, we know of no instance where any DLA official did not make every reasonable effort to ensure the implementation of the USD(A) memorandum. Therefore, it would be inappropriate to discipline any officials for misrepresenting the status of implementation of the USD(A) memorandum.

DISPOSITION:

() Action is ongoing. Estimated Completion Date
(X) Action is considered complete.

INTERNAL MANAGEMENT CONTROL WEAKNESSES (IMCs): None. Overall the USD(A) memorandum was implemented by our field activities to the extent tasked by DLA Headquarters guidance.

MANAGEMENT COMMENTS - DEFENSE LOGISTICS AGENCY (cont'd)

IF IMCs WERE IDENTIFIED IN REPORT:

- NONCONCUR.
- CONCUR; however, weakness is not considered material.
- CONCUR; weakness is material and will be reported in the DLA Annual Statement of Assurance.

RECOMMENDATION MONETARY BENEFITS: (WHERE APPLICABLE)

DLA COMMENTS: None
ESTIMATED REALIZATION DATE: N/A
AMOUNT REALIZED: N/A
DATE REALIZED: N/A

ACTION OFFICER: John R. King, DLA-PBS, x46451
DLA APPROVAL: Helen T. McCoy, Deputy Comptroller

LIST OF AUDIT TEAM MEMBERS

David K. Steensma, Director, Contract Management Directorate
Richard B. Jolliffe, Audit Program Director
Garry A. Hopper, Audit Project Manager
Gerald L. Werking, Senior Auditor
Kendall G. Parker, Auditor
Cassandra M. Todd, Auditor
Dorothy L. Jones, Auditor
Christine S. Bowles, Auditor
Frank Ponti, Senior Statistician
Velma L. Booker, Administrative Support

INTERNET DOCUMENT INFORMATION FORM

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Symbol, & Ph #):** OAIG-AUD (ATTN: AFTS Audit Suggestions)
Inspector General, Department of Defense
400 Army Navy Drive (Room 801)
Arlington, VA 22202-2884

D. Currently Applicable Classification Level: Unclassified

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