DEPARTMENT OF DEFENSE

AUDIT REPORT

ADMINISTRATION OF THE CONTRACT CLOSEOUT PROCESS
AT THE
DEFENSE CONTRACT MANAGEMENT DISTRICT WEST

No. 91-065

March 20, 1991

Office of the
Inspector General

INSPECTOR GENERAL
DEPARTMENT OF DEFENSE
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MEMORANDUM FOR DIRECTOR, DEFENSE LOGISTICS AGENCY
COMMANDER, DEFENSE CONTRACT MANAGEMENT DISTRICT WEST

SUBJECT: Report on the Audit of the Administration of the Contract Closeout Process at the Defense Contract Management District West (Report No. 91-065)

This is our final report on the Audit of the Administration of the Contract Closeout Process at the Defense Contract Management District West (DCMDW) (formerly the Defense Contract Administration Services Region, Los Angeles), submitted for your information and use. Comments on a draft of this report were received from the Defense Logistics Agency (DLA) and considered in preparing this final report. This is the third in a series of reports issued as part of a Government-wide President's Council on Integrity and Efficiency audit of the contract closeout process. The audit was made from January through December 1989. The objectives of the audit were to determine the timeliness of the contract closeout process, the validity of unliquidated obligations on contracts awaiting closeout, and the timeliness of collections of refunds due on incentive contracts with cost underruns. As part of the audit, we also evaluated internal controls over the contract closeout process. As of December 31, 1988, the Contract Administration Report at DCMDW showed that administrative contracting officers were administering 94,833 contracts, and that 19,250 of these contracts, which had $812.2 million of unliquidated obligations, were complete and awaiting contract closeout.

The audit showed that the contract closeout process at DCMDW was not effective for closing contracts in a timely manner, for removing excess funds from contracts, and for recovering overpayments on incentive contracts. The audit showed that DCMDW, as well as its parent organization, DLA, took actions to improve the closeout process. While those actions were commendable, additional actions were needed. The results of the audit are summarized in the following paragraphs, and the details, audit recommendations, and management comments are contained in Part II of this report. The complete text of management comments from DLA is in Appendix A.

Contract closeouts were not timely. Our audit disclosed that 66 of 128 contracts reviewed were not closed out for periods ranging from 1 to 133 months, with a median of 19 months, after the end of the specified closeout time frames. The delays in closing contracts created a backlog of about 7,700 contracts awaiting closeout. The backlog required additional management attention from DLA and the Services. We found interrelated problems in the contract closeout process and included recommendations that encompassed the entire process. We recommended that DCMDW establish a working group to close all overage contracts in the Contract Administration Report in section 2 (physically complete contracts awaiting closeout), section 3 (dormant contracts), and section 4 (contracts that are closed and reopened for payment adjustments); review funds to identify excess monies for deobligation (Finding B); and initiate timely recovery of overpayments (Finding C). In addition, we recommended that the administrative contracting officers be held accountable for the contract closeout process through their performance plans. We also recommended that DLA revise the procedures in the Defense Logistics Agency Manual 8105.1, "Contract Administration Manual for Contract Administration Services," dated September 22, 1988, to establish time frames for closing section 3 contracts that were terminated for convenience (page 5).

Administrative contracting officers did not make required fund reviews on 52 percent of the physically complete contracts reviewed to determine whether the contracts had unliquidated obligations that could be released and reused for other purposes. As a result, $4.5 million was not deobligated. A total of $325,932 of the $4.5 million was stock fund money that could have been reused. In addition, there were overstated obligations of $37.4 million and understated disbursements of $1.9 million. We recommended that DCMDW update training curriculum to include the procedures for fund reviews. We also recommended that requests be initiated to procuring offices to deobligate $4.5 million (page 13).

Administrative contracting officers did not recover overpayments to contractors on physically complete fixed-priced incentive contracts in a timely manner. Eight of the twenty-two fixed-price incentive contracts had a total of $1.1 million of overpayments. Delays in recovering the overpayments cost the Government an estimated $197,000 (see Appendix C) in interest and exposed the Government to unnecessary risks associated with debt collection. We did not make any recommendations on this issue since collection action has been accomplished or initiated on all of the contracts we reviewed (page 15).

Since the completion of this audit, a new law has been instituted that directly impacts contract closeout. The FY 1991 Appropriation Act changed the way expired funds and M Accounts are handled. The new rules place specific time limits on the availability of appropriated monies. After the time expires, all

balances are canceled and obligations outstanding must be charged to a current appropriation. There will no longer be any M Accounts. These changes make timely contract closeout an essential part of contract management. DLA has provided guidance to field activities emphasizing the importance of closing contracts on time (Appendix F). The timeliness of contract closeout should improve as a result of the new rules for funds availability.

DLA concurred with the findings, but generally nonconcurred with draft report Recommendations A.1., A.2.a., A.2.b., and A.2.c., which addressed the timely closing of contracts. We recommended that closeout time frames be established for contracts in section 3 of the Contract Administration Report, that a working group be established to assist in contract closeout and report progress on reducing the backlog of contracts awaiting closeout, and that administrative contracting officers be held accountable for contract closeout through their performance plans. DLA did not propose any alternative actions to these recommendations. We request that DLA reconsider its position on Recommendations A.1., A.2.a. and A.2.b. and provide additional comments to the final report. Based on discussions with management, we have revised Recommendation A.2.c. and request that the DLA provide comments to the revised Recommendation in the final report.

DLA concurred with draft report Recommendations B.1., B.2., and Finding C. No recommendations were made to Finding C because the overpayments were collected prior to issuance of the draft report.

The audit identified internal control weaknesses as defined by Public Law 97-255, Office of Management and Budget Circular A-123, and DoD Directive 5010.38. Internal controls were not effective for closing contracts in a timely manner, for identifying and deobligating excess funds from physically complete contracts, and for recovering overpayments on incentive-type contracts in a timely manner. Recommendations A.1. and A.2.c. in this report, if implemented, will correct the weaknesses and improve the controls over the contract closeout process. The monetary benefits related to internal control weaknesses were not readily identifiable because the recommended actions relate to accountability for the contract closeout process rather than to specific contracts that have identifiable dollar values. Copies of this report are being provided to the senior officials who are responsible for internal controls at DLA and DCMDW.

DoD Directive 7650.3 requires that all audit recommendations be resolved promptly. Accordingly, final comments on the unresolved issues in this report should be provided within 60 days of the date of this memorandum.

The cooperation and courtesies provided to the audit staff are appreciated. Please contact Mr. Salvatore D. Guli, Program Director, at (703) 614-6285 (AUTOVON 224-6285), or Ms. Linda A. Pierce, Project Manager at (703) 693-0560 (AUTOVON 223-0560), if you have any questions on this audit. A list of audit team members who participated in the audit is shown in Appendix H. Copies of this report are being provided to the activities listed in Appendix I.

Edward R. Jones
Deputy Assistant Inspector General
for Auditing

Enclosure

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

REPORT ON THE AUDIT OF THE ADMINISTRATION OF THE CONTRACT CLOSEOUT PROCESS AT THE DEFENSE CONTRACT MANAGEMENT DISTRICT WEST

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Prepared by:
Contract Management Directorate
Project No. 9AC-0021.02

REPORT ON THE AUDIT OF THE ADMINISTRATION OF THE CONTRACT CLOSEOUT PROCESS AT THE DEFENSE CONTRACT MANAGEMENT DISTRICT WEST

PART I - INTRODUCTION

Background

Defense Contract Management District West (DCMDW), is one of five Defense Contract Management Districts (formerly Defense Contract Administration Services Regions) within the Defense Logistics Agency (DLA) that provides contract administration services to DoD and other departments and agencies of the Federal Government. As of December 31, 1988, DCMDW was administering 94,833 contracts with unliquidated obligations of $20.3 billion.

DCMDW uses an automated system, "Mechanization of Contract Administration Services," (MOCAS) to maintain control over the administration of contracts, including the contract closeout process. The system is designed to allow DCMDW employees to enter various types of basic contract data and actions into the data base for every contract the region administers. Data items and actions include contract numbers, obligation amounts, scheduled delivery dates, contract administration services required by the contract, modifications and changes to the basic contract, actual delivery quantities and dates, and payments. This information permits the administrative contracting officers (ACO's) to monitor the status of the contracts including the status of funds, deliveries, and other administrative actions.

The Contract Administration Report (the Report) is one element of the MOCAS system. The Report is organized into five primary sections. Section 1 contains active contracts on which delivery and acceptance of supplies, performance of services, or periods of performance have not been completed. Section 2 contains physically complete contracts on which delivery of supplies and services are completed and accepted, but contract administration is still pending. Section 3 contains dormant contracts on which one or more of the following are pending: complete terminations for convenience, public law claims, investigations, bankruptcy, litigation, final payments withheld contingent on extended testing after shipment, and contingent value engineering payments. Section 4 contains contracts requiring payment adjustments. These contracts have been closed and reopened by the finance office for financial adjustments or collections. Section 5 contains contracts that have been closed during the month.

The procedures for closing contracts are listed in Federal Acquisition Regulation (FAR) 4.804-5, "Detailed Procedures for Closing Out Contract Files." These procedures specify that the office administering the contract is responsible for initiating closeout procedures to ensure that: the disposition of classified material is completed; the final patent report cleared; the final royalty report cleared; there is no outstanding value engineering change proposal; the plant clearance report and the property clearance reports are received; the prime contractor settles all interim or disallowed costs; prior year indirect cost rates are settled; the termination docket, the contract audit, and the contractor's closing statement are completed; the contractor's final invoice has been submitted; and the deobligation of excess funds is recommended. The Defense Logistics Agency Manual 8105.1, "Contract Administration Manual for Contract Administration Services," dated September 22, 1988, requires the ACO's to initiate action to ensure the accomplishment of all closeout procedures prior to contract closeout.

Objectives and Scope

The overall objective was to determine whether the contract closeout process at DLA was accomplished in an efficient and effective manner. Specific objectives were to determine the timeliness of the closeout process, the validity of unliquidated obligations, the recovery of refunds on fixed-price incentive contracts with cost underruns, and the adequacy of internal controls over the contract closeout process.

As of December 31, 1988, DCMDW had 19,250 completed contracts awaiting contract closeout. We excluded 70 contracts associated with the termination of the Division Air Defense (DIVAD) Gun system. To accomplish our objectives, we selected contracts from the active, physically complete, dormant, and pay adjustment sections of the Report as of December 31, 1988. Statistical techniques were used to select samples of contracts for review, but the sample sizes were not large enough to allow statistical projections. Therefore, all results reported are limited to the sampled data reviewed and are not intended to represent a projection to the total universe. We reviewed a total of 340 contracts with unliquidated obligations of $396.7 million.

We reviewed 192 active contracts to determine whether active contracts were physically complete and should have been included in the closeout process. We reviewed 41 physically complete contracts, 50 dormant contracts, and 37 contracts awaiting pay adjustments to determine the timeliness of the closeout process. We also reviewed 19 of the 41 physically complete contracts and the 50 dormant contracts for the validity of unliquidated obligations. The 41 physically complete contracts included 2 fixed-price incentive contracts. We validated the

unliquidated obligation balances on 17 fixed-price incentive contracts. Finally, we reviewed 22 fixed-price incentive contracts to determine whether refunds were recovered.

At the time of audit, DCMDW had 5,183 physically complete cost-type contracts. The backlog of Defense Contract Audit Agency audits prevented about 30 percent of those contracts from being closed pending submission of audit reports on final overhead rates, final cost submissions, and contractor claims. However, this problem was not within the authority of the Defense Logistics Agency or DCMDW to correct and will be addressed in the report on the "President's Council on Integrity and Efficiency Audit of the Contract Closeout Process," Project No. 0CF-0045.01.

This program results audit was made from January to December 1989 and included reviews of ACOs' contract files and accounting and finance payment records, dated from March 1974 through December 1989. The audit was made 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 the internal controls as were considered necessary. A list of the activities visited or contacted during the audit is in Appendix G.

Internal Controls

The internal controls review focused on the implementation of the Federal Managers' Financial Integrity Act at DCMDW as it related to our audit scope. DCMDW did not identify contract closeout separately for evaluation of internal controls. Controls were not adequate to ensure: timely contract closeout, validity of unliquidated obligations, and timely collection of overpayments on fixed-price incentive contracts. Timeliness criteria were lacking for contracts in the dormant section of the Report, and there was no guidance on how to conduct fund reviews. In addition, ACO's were not held accountable for their performance of the contract closeout process in their performance plans. Details are addressed in Part II, Finding A, of the report.

Prior Audit Coverage

Since 1986, the U.S. Army Audit Agency, the Air Force Audit Agency, and the Defense Logistics Agency, have issued a total of four audit reports on the administration of the contract closeout process. In addition, the DoD Inspector General issued two prior reports, which are part of a series of reports on the administration of the contract closeout process. This report has identified the same types of problems in the contract closeout process as were identified in the prior audit reports, including untimely contract closeout, untimely deobligation of excess funds, and delays in recovery of overpayments. Details of additional audit coverage are shown in Appendix E.

Part II - FINDINGS AND RECOMMENDATIONS

A. Closing of Contracts

FINDING

Contract closeouts at Defense Contract Management District (DCMDW) were not timely or in compliance with existing Federal Acquisition Regulation (FAR) and Defense Logistics Agency Manual guidance. Of the 128 contracts reviewed, 66 contracts were overage for periods ranging from 1 to 133 months, with a median of 19 months, based on the closeout time frames specified in the FAR. Causes for delays in closing contracts were the lack of closeout time frames for contracts not in the physically complete section of the Contract Administration Report (the Report) and a backlog of audits of overhead rates. In addition, performance plans did not hold administrative contracting officers (ACO's) accountable for the contract closeout process. As a result, there was a backlog of about 7,700 overage contracts requiring closeout with an estimated $297.3 million in unliquidated obligations. The backlog required additional management attention from the Services' procuring agencies.

DISCUSSION OF DETAILS

Background. FAR 4.804-1, "Closeout by the Office Administering the Contract," prescribes time frames of 6 months to close firm-fixed price contracts, 36 months to close contracts requiring the settlement of overhead rates, and 20 months on all other contracts. The time begins when the contracts are considered physically complete. Section 2 of the Report tracks physically complete contracts to closure and identifies contracts that are overage. No other section of the Report measures the closure time that has elapsed on contracts.

The Defense Logistics Agency Manual 8105.1 (DLAM 8105.1), "Contract Administration Manual for Contract Administration Services," dated September 22, 1988, states that section 3, dormant contracts, is for contracts on which closeout is contingent on actions beyond the ACOs' control. The actions considered beyond the ACOs' control include terminations for convenience, disputes before the Board of Contract Appeals, investigations, litigation, and final disposition of contracts terminated for default. The closeout time frames prescribed for physically complete contracts are not applied to dormant contracts.

The Defense Logistics Agency Manual 7000.1, "Accounting and Finance Manual," states that section 4 of the Report is for contracts that have been closed and subsequently reopened for payment adjustments, collections, and review of unliquidated obligations. DLAM 8105.1 states that contracts in the pay adjustment section are the responsibility of Accounting and Finance, including the movement of contracts into and out of

section 4 of the report. The closeout time frames prescribed in the FAR for physically complete contracts are not applied to contracts awaiting pay adjustments in section 4.

Timeliness of Contract Closeout. We reviewed 128 contracts from sections 2, 3, and 4 of the Report, as of December 31, 1988, to determine whether DCMDW officials were closing contracts within the prescribed time frames. We reviewed the overage dates in section 2 of the Report to determine whether physically complete contracts were overage. The overage date is the date that the contract becomes overage based on the prescribed closeout time frames. We reviewed contracts in sections 3 and 4 of the Report to determine whether they were physically complete and could be closed, and whether any of the contracts were overage. The following chart shows the number of contracts in sections 2, 3, and 4 of the Report, and the number of contracts we reviewed during the audit.

Report Sections	Number of Contracts Total	Number of Contracts Reviewed
Section 2 - Physically Complete Contracts	15,205	41
Section 3 - Dormant Contracts	716	50
Section 4 - Contracts Needing Payment Adjustments	3,329	37
Total	19,250	128

Of the 128 contracts reviewed, 66 (52 percent) were not closed within the prescribed time frames. The 66 contracts that were not closed timely had been physically complete for periods ranging from 1 to 133 months, with a median of 19 months, in excess of the time frames prescribed in FAR for contract closeout. About 39 percent of the contracts had been overage for more than 2 years. A distribution of overage contracts by the number of months lapsed from the prescribed closeout period is shown below.

Type of Contract	Distribution of Overage Contracts by Months 1-12	13-24	25-36	37-48	49-60	Over 60
Firm-Fixed-Price	22	5	2	0	1	1
Cost	4	6	8	3	2	3
Fixed-Price Incentive	0	1	1	2	0	1
Other	1	1	0	0	1	1
Total	27	13	11	5	4	6

Officials at DCMDW attributed the untimely contract closeouts primarily to workload problems. Specifically, DCMDW had an abnormally large backlog of invoices awaiting payment. The officials maintained that their efforts to reduce the backlog of invoices imposed limitations on the number of personnel available to carry out other contract administration functions, including

contract closeout. We agreed with the officials that the backlog of invoices contributed to the closeout problem; however, our audit results did not show that the backlog of invoices was the main problem. We concluded that contracts were not closed timely because of noncompliance with the existing FAR and the Defense Logistics Agency Manual guidance, the lack of timeliness criteria for contracts not in section 2 of the Report, and the lack of a critical job element in ACOs' performance plans for contract closeout. Also, contract closeout was delayed for those contracts awaiting final overhead audits by the Defense Contract Audit Agency (DCAA).

Of 41 contracts that we reviewed from section 2 of the Report, 21 contracts were overage. The ACO's could have taken action to close 6 of the 21 contracts, but did not. Consequently, the six contracts exceeded the closeout time frames for periods ranging from 6 months to 11 years. Little effort would have been required to close the six contracts because only minor issues remained unresolved. The most common issue requiring resolution involved errors in the data base concerning contract funds.

Of the 87 contracts that we reviewed from sections 3 and 4 of the Report, 41 contracts did not belong in those sections. The 41 contracts were physically complete and should have been assigned to section 2. Thirty of the forty-one contracts were overage for periods ranging from 6 months to 8 years.

Guidance. The closure time frames and overage reporting requirements, which applied to section 2 of the Report, serve as internal control techniques that facilitate timely contract closeout. Those techniques were not available for the 41 contracts improperly assigned to sections 3 and 4. Without timeliness criteria, overage controls cannot be built into the Mechanization of Contract Administration Services (MOCAS) system to provide the ACO's with visibility over the contracts ready for the closeout process in these two sections of the Report. ACO's were not required to report contracts that were in these sections for excessive periods of time, or to explain the reasons for delays in closing the contracts.

Section 3 Contracts. There were 16 contracts erroneously assigned to section 3 while awaiting settlement of overhead rates. These contracts should have been reported in section 2 of the Report. Thirteen of the sixteen contracts were overage for periods ranging from 6 months to 8 years.

There were 34 contracts correctly assigned to section 3. Nineteen of the contracts were awaiting settlements on terminations for convenience. In the case of a contract terminated for convenience, the contractor has 1 year to submit a settlement proposal. A terminating contracting officer must negotiate the settlement of the termination with the contractor before the contract can be closed. In our opinion, the 1-year allowance for submission of the settlement proposal and the

timeliness criteria prescribed in FAR for the closeout of physically complete contracts provide the basis for establishing timeliness criteria for the closeout of contracts terminated for convenience. Thirteen of the nineteen terminated contracts we reviewed had been awaiting closeout from 21 months to 9 years.

Section 4 Contracts. We reviewed 37 contracts in section 4 of the Report. There were 25 section 2 contracts erroneously assigned to section 4. Nineteen of the twenty-five contracts exceeded the closeout time frames from 2 months to 6 years. Another six contracts reviewed in section 4 belonged either in section 1 (active contracts) or section 3 (dormant contracts). Three of the six contracts were assigned to section 4 for at least 22 months.

Six of the thirty-seven contracts were correctly assigned to section 4 for payment adjustments. Three of the six contracts were awaiting payment adjustments for periods ranging from 6 months to 12 months.

Accountability for Timely Closeout. We believe that the lack of specific standards in ACOs' performance plans has contributed to the backlog of contracts awaiting closeout. Performance plans did not include job elements or performance standards for timely contract closeouts. As a result, the ACO's were not held accountable by their supervisors when contracts were not closed timely.

Contract Audit Requirements. Officials at DCMDW attributed the untimely closeout of cost-type contracts to the requirement for DCAA to audit costs and final overhead rates prior to closing the contracts. As of December 31, 1988, there were 5,183 cost-type contracts in section 2 of the Report. Our review of 13 cost-type contracts disclosed that 4 of them were overage because overhead audits had not been completed. We estimated that the DCAA backlog of overhead audits prevented the ACO's from closing about 30 percent of the 5,183 cost-type contracts. We recognize that the audit backlog is not within the control of the ACO's, but contracts to be audited must be monitored like other physically complete contracts awaiting closeout. The problem of contracts becoming overage while awaiting DCAA audit will be addressed in our ongoing President's Council on Integrity and Efficiency Audit of the Contract Closeout Process, Project No. 0CF-0045.01.

Effects of Untimely Contract Closeout. We estimated that DCMDW had a backlog of 7,700 section 2 contracts requiring closeout. This backlog of contracts caused the Services' procurement offices and DLA to initiate actions to expedite contract closure. These initiatives used resources that could have been used for other purposes if the contract closeout process had been effective. For example, the Air Force Logistics Command initiated "Operation Clean Sweep" to deal with the problem of closing its physically complete contracts. The Army

Missile Command sent procurement officials to three Defense Contract Administration Services Regions in an effort to close its physically complete contracts. Also, the Navy obtained contractual resources to assist in closing contracts administered by Defense Contract Administration Services Regions.

In addition to increased management attention, the backlog of contracts awaiting closeout were reported in the Contract Administration Report. The increased volume of contracts in this report may slow down the everyday administrative processes of the ACO's.

Actions Taken By DLA. Management at DLA and DCMDW initiated actions to resolve contract closeout problems. DLA issued a series of directives to the Defense Contract Management Regions on managing the contract closeout process. These directives emphasized the importance of timely closeout of physically complete contracts and of early identification of excess funds to procuring contracting officers. The directives required that ACO's comply with the contract closeout procedures in DLAM 8105.1, Part 4.804-1; review the overage report; monitor settlement of indirect cost rates; identify excess funds; and inform the appropriate procuring contracting officer of excess funds.

DCMDW initiated reviews of contracts in sections 1, 2, and 3 with zero unliquidated obligation balances to identify contracts that could be closed. Reviews of all contracts in sections 3 and 4 were initiated to identify contracts that were erroneously assigned and to move the contracts to the proper section of the Report. In addition, DCMDW authorized its field offices to access the MOCAS data base and enter corrections to contract data.

The efforts of management to improve the closeout process were commendable. However, we believe that additional actions are required to reduce the backlog of contracts awaiting closeout. DCMDW needs a working group dedicated to closing contracts if the backlog is to be significantly reduced. The working group should perform all actions necessary to close overage contracts in sections 2, 3, and 4 of the Report, including reviewing unliquidated obligations to identify excess monies that could be deobligated, and issuing demand letters to collect overpayments on fixed-price incentive contracts. Additional details on the need to review funds for deobligation are discussed in Finding B, "Reviewing Unliquidated Obligations," and details on the collection of overpayments are discussed in Finding C, "Recovering Overpayments on Incentive Contracts."

RECOMMENDATIONS, MANAGEMENT COMMENTS, AND AUDIT RESPONSE

Recommendation A.1. We recommend that the Director, Defense Logistics Agency, revise Defense Logistics Agency Manual 8105.1, "Contract Administration Manual for Contract Administration Services," to specify time frames for contracts terminated for convenience in section 3 of the Contract Administration Report and to require overage reporting of contracts terminated for convenience that remain in section 3 in excess of those time frames.

Management Comments. DLA nonconcurred and stated that the complexity of contracts and termination actions will govern the period of time required for contract closeout. No alternative actions were proposed.

Audit Response. The comments of DLA were not responsive to the intent of the recommendation. No specific complexities that would hinder contract closeout were identified, and no alternative solutions to the delays in closing contracts in section 3 were proposed. We request that the Director, DLA, reconsider the position and provide additional comments to the final report.

Recommendation A.2.a. We recommend that the Commander, Defense Contract Management District West, establish a working group to close out all overage contracts in sections 2, 3, and 4 of the Contract Administration Report; to review funds in order to identify excess monies for deobligation and recommend deobligation to procuring contracting officers (Finding B); and to initiate timely collection of overpayments (Finding C).

Management Comments. DLA nonconcurred. Letters have been issued to field activities to emphasize contract closeout, funds review, and release of excess funds. The dormant status of contracts in section 3 of the Contract Administration Report and the responsibility of the Accounting and Finance organization for section 4 contracts were also cited as reasons for the nonconcurrence. DLA, however, did commit to review all contracts in sections 3 and 4 to remove any contracts improperly assigned to those sections.

Audit Response. The actions taken and proposed by DLA are partially responsive to the intent of our recommendation. It was evident in our audit that normal administrative contracting officer closeout actions were not accomplished in a timely manner. Placing the contracts in the correct sections of the Contract Administration Report will facilitate the administrative process for contract closeout, but will not reduce the backlog of overage contracts awaiting closeout. We request that the Director, DLA, reconsider the position and provide additional comments to the final report.

Recommendation A.2.b. We recommend that the Commander, Defense Contract Management District West, establish milestones for periodically reporting on the progress made to reduce the backlog of contracts requiring closeout.

Management Comments. DLA nonconcurred, stating that administrative contracting officers report on the status of overage contracts in sections 2 and 3 of the Contract Administration Report on a monthly basis. Section 4 contracts will be addressed during the continuous data base cleanup efforts.

Audit Response. This recommendation hinges on Recommendation A.2.a. We request that the Director, DLA, reconsider the position and provide additional comments to the final report.

Recommendation A.2.c. We recommend that the Commander, Defense Contract Management District West, establish and include performance standards in the administrative contracting officers' and their supervisors' performance plans for the contract closeout process to include timely closeout of contracts, timely review of funds for excess monies that could be deobligated (Finding B), and timely initiation of collection of overpayments (Finding C).

Management Comments. DLA nonconcurred with the draft report recommendation for a critical job element in the administrative contracting officers' and their supervisors' performance plans.

Audit Response. We have revised the recommendation in this final report to focus on establishing performance standards for timely closing of contracts. Therefore, we request that the Director, DLA, provide comments to the final report on the revised recommendation.

Management Comments on the Finding. DLA concurred with Finding A, qualifying the response by stating that delays [in contract closeout] are often beyond the control of the Administrative Contracting Officers. DLA also concurred that delays in closing contracts were an internal control weakness.

Audit Response. DLA has acknowledged the problem of untimely contract closeout, but rejected all of our proposed recommendations. No alternative solutions were offered in response to the draft report.

B. Reviewing Unliquidated Obligations

FINDING

ACO's did not make required fund reviews on 52 percent of the physically complete and dormant contracts. We reviewed these contracts to determine whether the contracts had unliquidated obligations that could be released and reused for other purposes. The fund reviews were not made because the Defense Logistics Agency Manual contained no guidance on how to conduct the reviews. In addition to the lack of guidance, DCMDW had not provided training to the ACO's on how to conduct fund reviews. As a result, $4.5 million was not identified to the procuring office for deobligation. (see Appendix B). A total of $325,932 of the $4.5 million was stock fund money that could be reused. In addition, obligations were overstated by $37.4 million, and disbursements were understated by $1.9 million.

DISCUSSION OF DETAILS

Background. Defense Logistics Agency Manual 8105.1, Change 6, Part 4.804-3, "Contract Administration Manual For Contract Administration Services," dated September 22, 1988, states: "When a contract is physically complete, the ACO will review the status of funds to ascertain whether funds are available for removal prior to final payments." Fund reviews are performed to determine the amount of excess funds on contracts and to recommend deobligation to the procuring contracting officer.

Reviews of Unliquidated Obligations. We reviewed 86 completed contracts from sections 2 and 3 of the Contract Administration Report, dated December 31, 1988, to determine whether ACO's recommended that excess funds be removed from contracts during the contract closeout process. We found no documentary evidence in the contract files that ACO's made fund reviews on 45 of the 86 contracts (52 percent) selected for audit. The 45 contracts had $47.8 million of unliquidated obligations.

These 45 contracts consisted of 31 section 2 contracts and 14 section 2 contracts erroneously assigned to section 3. We did not address the fund reviews for 41 section 3 contracts that were in bankruptcy, litigation, termination for default, or termination for convenience. These actions are not under the control of the ACO's, and the ACO's may not be aware of their impact on the funds available for deobligation.

We attributed the absence of fund reviews to the lack of guidance in DLAM 8105.1. The manual did not explain how the ACO's should determine whether contracts had excess funds or erroneous obligations. Procedures were not available on how to perform fund reviews for each type of contract, and high-dollar

unliquidated obligations on completed contracts did not require reporting to higher management levels.

Effects of Unliquidated Obligations. We found that $4.5 million on 16 of the 45 contracts without fund reviews could have been deobligated. Appendix B contains a detailed schedule of the 16 contracts and the basis for determining the deobligation amount on each contract. A total of $325,932 of the $4.5 million was stock fund money that could be reused. In addition, we found errors in the MOCAS system that overstated obligations by $37.4 million and understated disbursements by $1.9 million. For example, contract N00383-83-G-3101, delivery order 0005, had unliquidated obligations of $30 million in the system as of December 31, 1988. As a result of our review in April 1989, the ACO determined that the contract obligation amount was overstated by $30 million, and the actual unliquidated obligation was zero. Delays in identifying and correcting errors in obligations and disbursements contributed to the untimely closeout of contracts.

RECOMMENDATIONS, MANAGEMENT COMMENTS, AND AUDIT RESPONSE

We addressed the need for fund review procedures in our "Audit of the Administration of the Contract Closeout Process at the Defense Contract Management District Mid Atlantic," Project No. 9AC-0021, and we recommended that DLAM 8105.1 be revised in Finding B of that report. We believe that the new guidance will be effective if the training curriculum for ACO's is updated to include implementation of the new procedures.

Recommendation B.1. We recommend that the Commander, Defense Contract Management District West, update the training curriculum for administrative contracting officers to include the new fund review procedures.

Management Comments. DLA concurred. A training curriculum is being established through DLA Headquarters.

Recommendation B.2. We recommend that the Commander, Defense Contract Management District West, initiate requests to procuring offices to deobligate $4.5 million on the 16 contracts shown in Appendix B.

Management Comments. DLA concurred. Action has been taken or is planned on the contracts listed in Appendix B of this report.

C. Recovering Overpayments on Incentive Contracts

FINDING

ACO's were late in recovering $1.1 million of overpayments to contractors on eight fixed-price incentive contracts. The overpayments existed for periods ranging from 1 month to 7 years, with a median of 2 years. This condition occurred because ACO's did not obtain and review quarterly limitation on payment statements. Delays in recovering the overpayments cost the Government an estimated $197,000 in interest and exposed the Government to the unnecessary risks associated with outstanding debts.

DISCUSSION OF DETAILS

Background. FAR and DLAM 8105.1 do not list the recovery of overpayments to contractors as a required step in the contract closeout process. However, procedures for identifying and recovering overpayments are included in both regulations. FAR 16.405, "Incentive Contracts, Contract Clauses," requires contracting officers to insert FAR Clause 52.216-16, "Incentive Price Revision-Firm Target," in fixed-price incentive contracts. The clause stipulates that the contractor will furnish the Government with "Quarterly Limitation on Payment Statements." The quarterly statements should include the cost of all items the Government receives and the payments the contractor receives for the delivered items. If the amount of payments exceeds the cost of the delivered items, the contractor is required to immediately refund the overpayment to the Government. If the contractor does not refund overpayments within 30 days of the due date of the quarterly statements, the Government should assess interest in accordance with FAR clause 52.232-17, "Interest." FAR 42.302, "Contract Administration Functions," and DLAM 8105.1 Part 16.4-4c., require ACO's to analyze the quarterly limitation on payment statements and recover overpayments not refunded by the contractors.

Recovery of Overpayments. We selected 22 fixed-price incentive contracts from section 2 (physically complete), section 3 (dormant), and section 4 (pay adjustment) of the Report. We reviewed the latest cost information provided by the contractors for each contract, including quarterly limitation on payment statements and final price proposals, to determine whether contractors had been overpaid and whether ACO's had collected the overpayments promptly.

Eight of the twenty-two contracts reviewed had overpayments either before or at the time the contracts were physically complete. We found a total of $1.8 million in overpayments on the eight contracts. Of the $1.8 million, $1.1 million was outstanding from 18 months to 83 months before collection

action was initiated. Another $0.6 million was identified by the contractor and refunded within 4 months of the overpayment. The remaining $0.1 million was collected from 1 to 4 months from the date of the overpayments.

Reasons for Delays in Recovering Overpayments. On two contracts with overpayments totaling $102,002, ACO's did not obtain and review the contractor's quarterly limitation on payment statements. As a result, the ACO's did not identify the overpayments until the contractor submitted his final price proposals. On another contract with an overpayment of about $1 million, there was no documentation showing that the ACO reviewed the quarterly limitation on payment statements. The ACO did not identify the overpayment until the contractor submitted the final price revision. The $1 million was outstanding for 18 months. On three contracts with overpayments of approximately $37,000, ACO's identified the overpayments but did not initiate action to recover the overpayments. On two contracts, ACO's did not initiate action to recover the overpayments because the procuring contracting officers had not established the final price. On one contract, there was an administrative oversight. As a result of the audit, demand letters were issued for the $37,000. Until the overpayments were collected, none of these contracts could be closed.

Effect of Delays in Recovering Overpayments. When overpayments were not collected from contractors in a timely manner, the Government lost not only the use of the overpaid monies, but also the cost of that money (interest) to the U.S. Treasury. We obtained the interest costs from the U.S. Treasury for the years during which the overpayments were outstanding and estimated the interest cost to the U.S. Treasury at $197,000 (see Appendix C). In addition, the inherent risk associated with debt collection placed the Government unnecessarily at risk when overpayments existed because of the uncertainty of recovery. We believe that DoD can avoid these effects if ACO's take prompt action to identify and collect overpayments.

RECOMMENDATIONS, MANAGEMENT COMMENTS, AND AUDIT RESPONSE

No recommendations are made for this finding since recovery of overpayments has already been initiated or accomplished. Implementation of Recommendations A.2.c. and B.1. will help prevent future overpayments.

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

IN REPLY REFER TO DLA-CI

3 0NOV 1990

MEMORANDUM FOR ASSISTANT INSPECTOR GENERAL FOR AUDITING,
ATTN: DIRECTOR, CONTRACT MANAGEMENT
DIRECTORATE

SUBJECT: DOD IG Draft Report on the Audit of the Administration of the Contract Closeout Process at the Defense Contract Management Region, Los Angeles (Project No. 9AC-0021.02)

In response to your memorandum dated 10 September 1990, enclosed are our comments to the draft report.

Reathea E. Holmes

9 Encl

REATHEA E. HOLMES
Chief, Internal Review Division
Office of Comptroller

TYPE OF REPORT: AUDIT DATE OF POSITION: 30 Nov 90

PURPOSE OF INPUT: INITIAL POSITION

AUDIT TITLE AND NO.: Draft Report on the Audit of the Administration of the Contract Closeout Process at the Defense Contract Management Region, Los Angeles (Project No. 9AC-0021.02)

FINDING A: Closing of Contracts. Contract closeouts at Defense Contract Management Region, Los Angeles, were not timely or in compliance with existing Federal Acquisition Regulation (FAR) and Defense Logistics Agency Manual guidance. Of the 128 contracts reviewed, 66 contracts were overage for periods ranging from 1 to 133 months based on the closeout time frames specified in FAR. Causes for delays in closing contracts were the lack of closeout time frames for contracts not in the physically complete section of the Contract Administration Report (the Report) and a backlog of audits of overhead rates. In addition, the performance plans did not hold administrative contracting officers (ACOs) accountable for the contract closeout process. As a result, there is a backlog of about 7,700 overage contracts requiring closeout with an estimated $297.3 million in unliquidated obligations. The backlog required additional management attention from the Services' procuring agencies.

DLA COMMENTS:

Concur with the finding that contract closeout is not always timely in compliance with the Federal Acquisition Regulation (FAR) recommended timeframes. Causes for delay are often beyond the control of the Administrative Contracting Officer (ACO). In July 1987 the Air Force attempted to increase the recommended contract closeout time frame for cost-type contracts from 36 to 60 months in recognition of the actual times required to perform the required indirect rate settlement activities. The Defense Acquisition Regulatory (DAR) Council rejected the proposal because of high-level DoD and Service interest in expediting contract closeout. The DAR Council also attempted to implement regulatory changes to increase fee withholdings to encourage earlier submission of contractor overhead proposals. FAR requires contractors to submit their overhead proposal within 90 days of the end of their fiscal year but they take, on the average, 16 months to submit an acceptable proposal. The DAR Council had to withdraw the proposed changes because of strong opposition from industry and the Office of Federal Procurement Policy. In July 1990, a DAR case was proposed which would require DCAA to complete overhead audits within 18 months after receipt of an acceptable overhead proposal. DCAA objected to the inclusion of timeframes in the FAR as inappropriate without consideration of revising other acquisition priorities. In lieu of the audit completion timeframes, a proposal was made to revise the existing timeframe for contract closeout to "18 months after the contracting officer receives the audit report on the final indirect cost rates." The proposal was adopted by the DAR Council and has been sent to the Office of the Deputy

Assistant Secretary of Defense (Procurement) for review. In addition DLA is working closely with DCAA to focus their efforts on the contractors with the highest number of contracts where closeout is delayed pending DCAA audit of overhead or other indirect rates. Contract unliquidated obligations may not be available for deobligation but rather may represent monies due the contractor, or in the case of cost type contracts, money unavailable for deobligation prior to final audit.

MONETARY BENEFITS: None
DLA COMMENTS:
ESTIMATED REALIZATION DATE:
AMOUNT REALIZED:
DATE BENEFITS REALIZED:

INTERNAL MANAGEMENT CONTROL WEAKNESS:
(X) Concur; however, we do not agree there is a material internal control weakness reportable to the Secretary of Defense on our part. The present internal controls are inherently strong.

ACTION OFFICER: Nanette L. Audet, DLA-A, X44370

DLA APPROVAL: Helen T. McCoy

TYPE OF REPORT: AUDIT DATE OF POSITION: 30 Nov 90

PURPOSE OF INPUT: INITIAL POSITION

AUDIT TITLE AND NO.: Draft Report on the Audit of the Administration of the Contract Closeout Process at the Defense Contract Management Region, Los Angeles (Project No. 9AC-0021.02)

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RECOMMENDATION A.1.: We recommend that the Director, Defense Logistics Agency, revise Defense Logistics Agency Manual 8105.1, "Contract Administration Manual for Contract Administration Services," to specify time frames for contracts terminated for convenience in section 3 of the Contract Administration Report and to require overage reporting of contracts terminated for convenience that remain in section 3 in excess of those time frames.

DLA COMMENTS:

Nonconcur. FAR 4.804-1(c) Closeout by the office administering the contract, which provides recommended timeframes for contract closeout states: "A contract file shall not be closed if...in the case of a termination, all termination actions have not been completed." It does not address any recommended period for completion of these actions. The complexity of the contract and the subsequent termination actions will govern the period of time required to close out the contract. Aging of those contracts should not commence until all actions flowing from the termination have been completed.

DISPOSITION:
( ) Action is ongoing; Final Estimated Completion Date:
(X) Action is considered complete.

MONETARY BENEFITS: None
DLA COMMENTS:
ESTIMATED REALIZATION DATE:
AMOUNT REALIZED:
DATE BENEFITS REALIZED:

INTERNAL MANAGEMENT CONTROL WEAKNESS:
(X) Nonconcur. We do not agree that there is a material internal control weakness reportable to the Secretary of Defense on our part. The present internal controls are inherently strong.

ACTION OFFICER: Nanette L. Audet, DLA-A, X44370

DLA APPROVAL: Helen T. McCoy

TYPE OF REPORT: AUDIT DATE OF POSITION: 30 Nov 90

PURPOSE OF INPUT: INITIAL POSITION

AUDIT TITLE AND NO.: Draft Report on the Audit of the Administration of the Contract Closeout Process at the Defense Contract Management Region, Los Angeles (Project No. 9AC-0021.02)

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RECOMMENDATION A.2.a.: We recommend that the Commander, Defense Contract Management Region, Los Angeles, establish a working group to close out all overage contracts in sections 2, 3, and 4 of the Contract Administration Report, to review funds in order to identify excess monies for deobligation and recommend deobligation to procuring contracting officers (Finding B), and to initiate timely collection of overpayments (Finding C).

DLA COMMENTS:

Nonconcur. Overage contracts in Section 2 of the Contract Administration Report (CAR) are the responsibility of the individual Administrative Contracting Officers to be closed in accordance with the Defense Logistics Manual, DLAM 8105.1, Part 4.804 and DLAM 8000.3, Part 2, Chapter 4. DLA-AC letters numbered AC 89-23 and AC 89-24 dated 6 June 1989 and 9 June 1989 respectively were provided to our Field Activities to emphasize the importance of closing out overage contracts. DLA-AC letter number AC 89-23 disseminated information on contract closeout while letter AC 89-24 provided the field activities with pertinent information concerning contract closeout funds review and release of excess funds. Contracts in section 3 of the CAR are dormant and actions pending are beyond the control of the ACO. Contracts properly placed in Section 4 are the responsibility of the DLA Finance Center (DFC) in Columbus, Ohio. The ACOs have been instructed to conduct a review of all contracts listed in Sections 3 and 4 and to remove any contracts which do not meet the criteria for proper inclusion in those sections.

DISPOSITION:
( ) Action is ongoing; Final Estimated Completion Date:
(X) Action is considered complete.

MONETARY BENEFITS: None
DLA COMMENTS:
ESTIMATED REALIZATION DATE:
AMOUNT REALIZED:
DATE BENEFITS REALIZED:

INTERNAL MANAGEMENT CONTROL WEAKNESS:
(X) Nonconcur. (Rationale must be reflected in the DLA Comments and documentation must be maintained with your copy of the response.)

ACTION OFFICER: Nanette L. Audet, DLA-A, X44370

DLA APPROVAL: Helen T. McCoy

TYPE OF REPORT: AUDIT DATE OF POSITION: 30 Nov 90

PURPOSE OF INPUT: INITIAL POSITION

AUDIT TITLE AND NO.: Draft Report on the Audit of the Administration of the Contract Closeout Process at the Defense Contract Management Region, Los Angeles (Project No. 9AC-0021.02)

RECOMMENDATION A.2.b.: We recommend that the Commander, Defense Contract Management Region, Los Angeles, establish milestones for periodically reporting on the progress made to reduce the backlog of contracts requiring closeout.

DLA COMMENTS:

Nonconcur. On a monthly basis, ACOs report on the status of overage contracts in Section 2 and 3 of the CAR. DCMDW will continue to address Section 4 contracts during our continuous data base cleanup efforts.

DISPOSITION:
( ) Action is ongoing; Final Estimated Completion Date:
(X) Action is considered complete.

MONETARY BENEFITS: None
DLA COMMENTS:
ESTIMATED REALIZATION DATE:
AMOUNT REALIZED:
DATE BENEFITS REALIZED:

INTERNAL MANAGEMENT CONTROL WEAKNESS:
(X) Nonconcur. (Rationale must be reflected in the DLA Comments and documentation must be maintained with your copy of the response.)
( ) Concur; however, weakness is not considered material. (Rationale must be reflected in the DLA Comments and documentation must be maintained with your copy of the response.)
( ) Concur; weakness is material and will be reported in the DLA Annual Statement of Assurance.

ACTION OFFICER: Nanette L. Audet, DLA-A, X44370

DLA APPROVAL: Helen T. McCoy

TYPE OF REPORT: AUDIT DATE OF POSITION: 30 Nov 90

PURPOSE OF INPUT: INITIAL POSITION

AUDIT TITLE AND NO.: Draft Report on the Audit of the Administration of the Contract Closeout Process at the Defense Contract Management Region, Los Angeles (Project No. 9AC-0021.02)

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RECOMMENDATION A.2.c.: We recommend that the Commander, Defense Contract Management Region, Los Angeles, establish and include a critical job element in the administrative contracting officers' and their supervisors' performance plans specifying performance standards for the contract closeout process to include timely closeout of contracts, timely review of funds for excess monies that could be deobligated (Finding B), and timely initiation of collection of overpayments (Finding C).

DLA COMMENTS:

Nonconcur. The Administrative Contracting Officers' (ACOs) tasks are multifaceted and include complex analytical functions. We strongly disagree with the suggestion to isolate one aspect such as contract closeout as a critical job element in their performance plans. FAR 452.302 and DFARS 242.302 delineate 82 separate contract administration functions. All these elements are potentially "critical." Often contract closeouts are delayed as a consequence of action not being taken by persons or functional elements other than the ACO (e.g., audit of contractor indirect rates or final public vouchers by the DCAA, submission of those same rates or final vouchers by the contractor, etc.). Because so many of the actions delaying contract closeout are beyond the ACOs control, we do not feel that the ACO should be evaluated on the basis of something over which they have no control. Contract closeout and overage is one of the management indicators that DLA has historically evaluated and monitored on a monthly basis and as such has high visibility. Individual ACOs are held accountable for the overall management of the contract administration workload assigned to their group.

DISPOSITION:
( ) Action is ongoing; Final Estimated Completion Date:
(X) Action is considered complete.

MONETARY BENEFITS: None
DLA COMMENTS:
ESTIMATED REALIZATION DATE:
AMOUNT REALIZED:
DATE BENEFITS REALIZED:

INTERNAL MANAGEMENT CONTROL WEAKNESS:
(X) Nonconcur. We do not agree there is a material internal control weakness reportable to the Secretary of Defense on our part. The present internal controls are inherently strong.

ACTION OFFICER: Nanette L. Audet, DLA-A, X44370

DLA APPROVAL: Helen T. McCoy 23

TYPE OF REPORT: AUDIT DATE OF POSITION: 30 Nov 90

PURPOSE OF INPUT: INITIAL POSITION

AUDIT TITLE AND NO.: Draft Report on the Audit of the Administration of the Contract Closeout Process at the Defense Contract Management Region, Los Angeles (Project No. 9AC-0021.02)

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FINDING B: Reviewing Unliquidated Obligations. ACO's did not make required fund reviews on 52 percent of the physically complete and dormant contracts. We reviewed these contracts to determine whether the contracts had unliquidated obligations that could be released and reused for other purposes. The fund reviews were not made because the Defense Logistics Agency Manual contained no guidance on how to conduct the reviews. As a result, $4.5 million was not deobligated (see Appendix A). A total of $300,000 of the $4.5 million was stock fund money that can be reused. In addition, obligations were incorrectly overstated by $37.4 million and disbursements were incorrectly understated by $1.9 million.

DLA COMMENTS:

Concur. The Defense Logistics Agency Manual 8105.1 requires ACOs to review the status of funds on physically complete contracts to determine whether funds are available for removal before final payment and contract closeout. The methodology for conducting reviews varies by contract type and the supply or service under contract. Familiarity with the contract workload assignment is one of the most basic components of the ACO assignment. Incorrectly stated obligations and disbursements are corrected by comptroller personnel. We are preparing guidance on contract closeout and funds reviews as part of a training package being developed under our response to your review of contract closeout in Philadelphia (Project Number 9AC-0021).

MONETARY BENEFITS: None
DLA COMMENTS:
ESTIMATED REALIZATION DATE:
AMOUNT REALIZED:
DATE BENEFITS REALIZED:

INTERNAL MANAGEMENT CONTROL WEAKNESS:
(X) Concur; however, weakness is not considered material. We do not agree there is a material internal control weakness reportable to the Secretary of Defense on our part. The present internal controls are inherently strong.

ACTION OFFICER: Nanette L. Audet, DLA-A, X44370

DLA APPROVAL: Helen T. McCoy

TYPE OF REPORT: AUDIT DATE OF POSITION: 30 Nov 90

PURPOSE OF INPUT: INITIAL POSITION

AUDIT TITLE AND NO.: Draft Report on the Audit of the Administration of the Contract Closeout Process at the Defense Contract Management Region, Los Angeles (Project No. 9AC-0021.02)

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RECOMMENDATION B.1.: We recommend that the Commander, Defense Contract Management Region, Los Angeles, update the training curriculum for administrative contracting officers to include the new fund review procedures.

DLA COMMENTS:

Concur. Training to acquaint personnel with methodology and computer reports available for contract reconciliation would be beneficial. DLA-A personnel are working with Defense Contract Management District personnel to develop a training curriculum. This project is being worked under your review of contract closeout in Philadelphia (Project 9AC-0021).

DISPOSITION:
( ) Action is ongoing; Final Estimated Completion Date:
(X) Action is considered complete.

MONETARY BENEFITS: None
DLA COMMENTS:
ESTIMATED REALIZATION DATE:
AMOUNT REALIZED:
DATE BENEFITS REALIZED:

INTERNAL MANAGEMENT CONTROL WEAKNESS:
(X) Concur; however, weakness is not considered material. We do not agree there is a material internal control weakness reportable to the Secretary of Defense on our part. The present internal controls are inherently strong.

ACTION OFFICER: Nanette L. Audet, DLA-A, X44370

DLA APPROVAL: Helen T. McCoy

TYPE OF REPORT: AUDIT DATE OF POSITION: 30 Nov 90

PURPOSE OF INPUT: INITIAL POSITION

AUDIT TITLE AND NO.: Draft Report on the Audit of the Administration of the Contract Closeout Process at the Defense Contract Management Region, Los Angeles (Project No. 9AC-0021.02)

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RECOMMENDATION B.2.: We recommend that the Commander, Defense Contract Management Region, Los Angeles, initiate requests to procuring offices to deobligate $4.5 million on the 16 contracts shown in Appendix A.

DLA COMMENTS:

Concur. The following remarks are provided for each contract included in Appendix A:

DAAH01-81-C-B253, DAAH01-82-C-A074, and DAAH01-76-C-0684 The ACO is awaiting the PCO's approval of the final price revision proposal. Deobligation of funds will take place after negotiations.

DAAE07-80-G-0001-0003 AND DAAE07-80-G-0001-0020 The ACO has final negotiation responsibility for final price revision. The contractor's proposal has been received and final negotiations are in process. Deobligation of remaining funds will take place after negotiations.

F04704-84-C-0010, F29650-84-C-E001, and DAAE07-87-C-1024 These are Cost-Type contracts. The contractor is in the process of submitting the final contract voucher for payment. When the audit is complete, final payment to the contractor and/or deobligation will occur.

F04701-78-C-0011 The ACO is awaiting the contractor's final price revision proposal. After receipt and evaluation of the contractor's proposal, the PCO will make a final decision on payment or deobligation of remaining contract funds.

F04701-79-C-0107, F33657-81-C-0101, and N00228-80-C-4000 Excess funds have been deobligated.

N00024-86-C-5840, N00024-86-C-5853, and DAAK21-82-C-0054 The PCO has been notified that the remaining funds are excess and available for deobligation. Awaiting PCO response.

DAAH01-82-C-A001 This contract was closed on 30 September 1989.

DISPOSITION:
( ) Action is ongoing; Final Estimated Completion Date:
(X) Action is considered complete.

MONETARY BENEFITS: None
DLA COMMENTS:
ESTIMATED REALIZATION DATE:

AMOUNT REALIZED:
DATE BENEFITS REALIZED:

INTERNAL MANAGEMENT CONTROL WEAKNESS:
(X) Concur; however, weakness is not considered material. We do not agree there is a material internal control weakness reportable to the Secretary of Defense on our part. The present internal controls are inherently strong.

ACTION OFFICER: Nanette L. Audet, DLA-A, X44370

DLA APPROVAL: Helen T. McCoy

TYPE OF REPORT: AUDIT DATE OF POSITION: 30 Nov 90

PURPOSE OF INPUT: INITIAL POSITION

AUDIT TITLE AND NO.: Draft Report on the Audit of the Administration of the Contract Closeout Process at the Defense Contract Management Region, Los Angeles (Project No. 9AC-0021.02)

Final Report

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FINDING C: Recovering Overpayments on Incentive Contracts. ACOs were late in recovering $1.1 million of overpayments to contractors on eight fixed-price incentive contracts. The overpayments existed for periods ranging from 1 month to 7 years. This condition occurred because ACOs did not obtain and review quarterly limitation on payment statements. Delays in recovering the overpayments cost the Government an estimated $197,000 in interest and exposed the Government to the unnecessary risks associated with outstanding debts.

DLA COMMENTS:

Concur. The overpayments were not collected in a timely manner. In accordance with this finding, the funds have now been collected.

MONETARY BENEFITS: None
DLA COMMENTS:
ESTIMATED REALIZATION DATE:
AMOUNT REALIZED:
DATE BENEFITS REALIZED:

INTERNAL MANAGEMENT CONTROL WEAKNESS:
(X) Concur; however, weakness is not considered material. We do not agree there is a material internal control weakness reportable to the Secretary of Defense on our part. The present internal controls are inherently strong.

ACTION OFFICER: Nanette L. Audet, DLA-A, X44370

DLA APPROVAL: Helen T. McCoy

CONTRACTS WITH FUNDS AVAILABLE FOR DEOBLIGATION

Contract Number	Unliquidated Obligations As of December 31, 1988 1/	Funds Available for Deobligation 2/	Basis for Deobligation
DAAH01-81-C-B253	$1,066,617.00	$ 987,960.00	Final price revision. 3/
DAAH01-82-C-A001	321,295.47	320,880.47	All contract actions completed. 4/
DAAH01-76-C-0684	2,620,430.56	436,011.37	Final price revision. 3/
F29650-84-C-E001	145,733.00	100,000.00	ACO review of unliquidated obligations. 5/
F33657-81-C-0101	366.70	366.70	ACO review of unliquidated obligations. 5/ 6/
DAAE07-87-C-A024	108,567.00	50,000.00	ACO review of unliquidated obligations. 5/
F04701-78-C-0011	752,258.00	50,000.00	Contractor review of unliquidated obligations. 7/
N00228-80-C-4000	316,461.96	316,461.96	ACO review of unliquidated obligations. 5/
F04704-84-C-0010	153,871.00	60,000.00	Contractor review of unliquidated obligations. 7/
F04701-79-C-0107	700,359.67	700,000.00	ACO review of unliquidated obligations. 5/
N00024-86-C-5840	376,017.75	25,855.00	Final price revision. 3/
N00024-86-C-5853	159,231.23	159,231.23	All contract actions completed. 8/
DAAH01-82-C-A074	868,186.70	867,522.76	Final price revision. 3/
DAAE07-80-G-0001/0020	18,623.90	9,470.19	Final price revision. 3/
DAAE07-80-G-0001/0003	43,552.22	37,556.66	Final price revision. 3/
DAAK21-82-C-0054	614,149.70	384,797.00	Review of quarterly cost statements. 9/
Total	$8,265,721.86	$4,506,113.34	

See footnotes at end of table

1/ The unliquidated obligation was obtained from the Defense Contract Management Region, Los Angeles, Contract Administration Report, December 31, 1988.

2/ Funds available for deobligation are the unliquidated obligations that the administrative contracting officers should recommend to the procuring offices to deobligate. See the basis for deobligation comments and notes for details on how the deobligations were determined.

3/ We determined the final cost for each of the fixed-price incentive contracts that had final price revisions. The funds available for deobligation are the difference between the contract obligations and the contractor's proposed final price revision.

4/ The contractor's final invoice was submitted on March 26, 1987, and the Defense Contract Audit Agency completed the audit on November 13, 1987. No further action was taken until the administrative contracting officer issued modification A00005, January 10, 1989, deobligating $320,880.47.

5/ We requested that the administrative contracting officers (ACO's) review the unliquidated obligations for funds that could be recommended for deobligation. The amounts shown under funds available for deobligation are the results of the administrative contracting officer's reviews.

6/ The administrative contracting officer issued modification A00003, deobligating $366.70 on October 10, 1989.

7/ The contractor provided letters authorizing deobligation of excess funds of $50,000 from contract F04701-78-C-0011 and $60,000 from contract F04704-84-C-0010.

8/ According to the administrative contracting officer, the contract should be closed. Since the contract can be closed, we concluded that the unliquidated obligated balance of $159,231.23 can be deobligated.

9/ Modification P00025, May 29, 1985, established total obligations of $11.2 million, whereas the Contract Administration Report had obligations of $10.8 million. Based on our review of the last incentive price revision quarterly statement, the difference in obligations of $384,797 can be deobligated.

CALCULATION OF INTEREST EXPENSE FOR OVERPAYMENTS

Contract Number	$ Amount of Overpayment	Interest Rate	Months	Interest Expense
DAAH01-80-G-0015-0003	4,074.00	7.11%	12	$ 289.66
	4,074.00	7.68%	12	312.88
	4,074.00	8.30%	12	338.14
TOTAL				$ 940.68
DAAH01-80-G-0015-0010	3,270.00	7.11%	12	232.49
	3,270.00	7.68%	12	251.13
	3,270.00	8.30%	12	271.41
TOTAL				$ 755.03
DAAE07-80-G-0001-BA02	64,445.96	9.61%	12	6,193.25
	64,445.96	7.11%	12	4,582.10
	64,445.96	7.68%	3	1,237.36
TOTAL				$ 12,012.71
DAAE07-80-G-0001-0020	18,581.00	7.68%	2	237.83
	18,581.00	8.30%	2	257.03
TOTAL				$ 494.86
DAAE07-80-G-0001-0003	37,555.60	7.11%	12	2,670.20
	37,555.60	7.68%	12	2,884.27
TOTAL				$ 5,554.47
DAAH01-82-C-A074	395.00	11.64%	6	22.98
	395.00	9.61%	12	37.95
	395.00	7.11%	12	28.08
	395.00	7.68%	7	17.69
	1,000.00	11.64%	2	19.40
	1,000.00	9.61%	12	96.10
	1,000.00	7.11%	12	71.10
	1,000.00	7.68%	7	44.80
	625,196.00	8.30%	4	17,297.08
TOTAL				$ 17,635.18
DAAH01-81-C-B253	994,247.00	11.64%	4	38,576.78
	994,247.00	9.61%	12	95,547.13
	994,247.00	7.11%	1	5,890.91
TOTAL				$140,014.82
N61339-76-C-0031	30,068.13	12.51%	11	3,448.06
	30,068.13	10.37%	12	3,118.06
	30,068.13	11.64%	12	3,499.93
	30,068.13	9.61%	12	2,889.54
	30,068.13	7.11%	12	2,137.84
	30,068.13	7.68%	12	2,309.23
	30,068.13	8.30%	12	2,495.65
TOTAL				$ 19,898.31
GRAND TOTAL				$197,306.06

SUMMARY OF POTENTIAL MONETARY AND OTHER BENEFITS RESULTING FROM AUDIT

Recommendation Reference	Description of Benefit	Amount and Type of Benefit
A.1.	Internal Control. Establishes timeliness controls where none previously existed.	Nonmonetary.
A.2.a.	Economy and Efficiency. Will result in more efficient use of contract administration resources, and facilitate the reorganization of contract administration services.	Nonmonetary.
A.2.b.	Program Results. Will facilitate monitoring progress on contract closeout.	Nonmonetary.
A.2.c.	Internal Control. Provides accountability for compliance with existing internal controls.	Nonmonetary.
B.1.	Program Results. Will facilitate implementation of new procedures established as a result of audit.	Nonmonetary.
B.2.	Economy and Efficiency. Stock fund monies can be reused for other procurements when deobligated.	Monetary. Funds can be put to better use by deobligating stock fund monies not needed on contracts. The amount of benefit could not be computed based on audit results.
C.	Economy and Efficiency. Interest cost as a result of delays in collecting overpayments.	Cost avoidance of interest resulting from future prompt collection of overpayments cannot be computed based on audit results.

SYNOPSIS OF PRIOR AUDIT REPORTS ON ADMINISTRATION OF THE CONTRACT CLOSEOUT PROCESS

Inspector General, Department of Defense, Project No. 9AC-0021, "Draft Report on the Audit of the Administration of the Contract Closeout Process at the Defense Contract Management Region, Philadelphia," July 19, 1990.

The report stated that contract closeout was not timely, and that administrative contracting officers did not make required fund reviews or recover overpayments on fixed-price incentive contracts. The audit also identified internal control weaknesses in these same areas. A Recommendation was made to the Defense Logistics Agency to revise the Defense Logistics Agency Manual 8105.1, "Contract Administration Manual for Contract Administration Services," dated September 22, 1988, to include procedures on how to review unliquidated obligations on different types of contracts. The report recommended that the Defense Contract Management Region, Philadelphia, establish a working group to closeout all overage contracts, provide training to administrative contracting officers on the new fund review procedures, and include the contract closeout process in administrative contracting officers' performance plans.

Inspector General, Department of Defense, Report No. 90-108, "Final Report on the Audit of the Administration of the Contract Closeout Process at the Defense Contract Management Region, Dallas," September 18, 1990.

The report stated that the overall administration of the contract closeout process at the Defense Contract Management Region, Dallas, was generally effective. Contracts were generally closed within time frames prescribed in the Federal Acquisition Regulation, and excess funds were identified for deobligation. No problems were reported on the collection of overpayments on fixed-price incentive contracts. This was a memorandum report with no recommendations.

Air Force Audit Agency, Project No. 7066411, "Audit of Closeout of Physically Completed Contracts With Unliquidated Obligations," July 14, 1988.

The report stated that management controls over the closeout process for physically complete contracts with unliquidated obligations were not effective, that the Air Force did not

complete contract fund reviews for about three-fourths of the contracts reviewed, that no coordination was initiated with paying offices to reconcile potential differences in fund balances, and that procuring contracting officers were not completing timely final closeout actions on physically complete contracts. The report recommended that the Director of Contract and Manufacturing Policy, Headquarters, U.S. Air Force, issue a supplement to Federal Acquisition Regulation (FAR) Part 4.804-5 directing procuring contracting officers to initiate contract fund reviews within 30 days after physical completion of each contract; coordinate contract fund reviews with accounting and finance offices; and instruct the buying activities to emphasize the importance of closing out physically complete contracts within FAR time frames. One method recommended to increase emphasis was to include in performance appraisals an evaluation of the timeliness of closing out contracts. The Director of Acquisition and Logistics Systems agreed to act on all recommendations except the one that pertained to performance appraisals. Specific corrective actions included a request to the Director of Contract and Manufacturing Policy to submit a Defense Federal Acquisition Regulation Supplement change to require contract fund reviews and deobligation of excess funds within 30 days after physical completion of each contract. The Director of Contract and Manufacturing Policy will encourage the use of warranted contracting officers and will request that the Air Force Logistics Command monitor the timeliness of contract closeouts and propose alternatives to establishing performance standards.

Defense Logistics Agency, Report No. DCASR LA-DI 6-88, "Report on the Audit of Contract Administration Report (CAR) System," May 13, 1988.

This report stated that contract data included in the Contract Administration Report were not always current and accurate, and that management's attention needs to be increased on open but dormant contracts. The report recommended that Defense Contract Administration Services Region, Los Angeles, take action to resolve the delinquent contract problem in section 1; close out all overage contracts in section 2; transfer contracts into the appropriate section of the Contract Administration Report within a reasonable time after cancellation or termination actions; establish priority in determining disposition over inactive contracts reported as dormant; deobligate excess funds on dormant contracts; and reclassify or close out dormant contracts resulting from pending settlement of overhead rates. The Defense

Contract Administration Services Region, Los Angeles, Office of the Comptroller Directorate, generally concurred with the audit findings and recommendations. The responses did not state specific actions to be taken to correct the reported deficiencies.

U.S. Army Audit Agency, Report No. HQ 87-705, "Contract Closeout Process," June 9, 1987.

The report stated that the interests of the Army were not properly protected by the contract closeout process, and that delays in the closeout process included delays in the deobligation of funds, the recovery of Government-furnished property, and the recovery of overpayments to contractors. The report recommended that all information documents on the contract closeout process be prepared, published, and circulated; that performance standards on contract closeout be established for contracting personnel; that contract closeout be monitored Army-wide and included in coverage by Army inspection and review teams; that coordination with non-Army activities responsible for contract closeout be improved; that contractors be given incentives for timely completion of actions affecting contract closeout; that the Army instruct all contracting offices on the requirement to use checklists of closeout actions and actions to be taken when contractors delayed submission of overhead. The Director for Contracting, Office of the Assistant Secretary of the Army (Research, Development and Acquisition), agreed with all the recommendations in the report. Specific actions were to develop a desktop handbook on contract closeout, establish standards on contract closeout in performance plans, establish an Army-wide reporting system to monitor contract closeout, and instruct contracting officers to use checklists to monitor the progress of contract closeout.

U.S. Army Audit Agency Report No. MW 86-206 "Audit of Contract Administration," June 30, 1986.

This report stated that the U.S. Army Materiel Command placed a low priority on the closeout of contracts and lacked an adequate system to monitor actions needed to close contracts. Closeout checklists were not used to ensure that appropriate actions were taken prior to contract closeout, and contracting personnel were not aware of reasons for delays or of actions needed to close contracts. The report recommended that a policy statement be issued on the importance of the contract closeout process, that a checklist be developed and used by the contracting personnel, that the active contract report show when contracts exceeded the closeout time frames in the Federal Acquisition Regulation, that commands furnish summary information on the closeout process for

analysis and corrective action, that completed contracts exceeding the closeout time frames be reported to management, and that the U.S. Army Materiel Command monitor the effectiveness of contract closeout by the buying commands. The U.S. Army Materiel Command agreed with the report recommendations.

U.S. Army Material Command Subject Matter Assessment

The assessment on the contract closeout process stated that funds were not deobligated promptly and overpayments existed on contracts.

DEFENSE LOGISTICS AGENCY
THE DEFENSE CONTRACT MANAGEMENT COMMAND
CAMERON STATION
ALEXANDRIA, VIRGINIA 22304-6190

IN REPLY REFER TO DLA-A

14 DEC 1990

SUBJECT: Fiscal Year (FY) 1991 Appropriation Act Changes Affecting Contract Closeout

TO: Commanders of DCM Districts
ATTN: Directors, Contract Management

1. Congress recently passed the FY 91 Appropriation Act. Provisions of the act require the closeout of all procurement appropriation accounts on 30 September of the fifth fiscal year after the period of availability for obligation ends.

2. Prior to this legislation, when the period of availability for obligation ended, expired funds retained their FY identity for a two-year period. After two years all obligated, but unliquidated balances, were transferred to a M Account which was not governed by any time constraints. This allowed obligations to be cleared against the account whenever the associated contracts were closed.

3. Under the new procedures, when the period of availability for obligation ends, the balances of the appropriation remain in an expired category. These funds are available to liquidate obligations and fund valid upward obligation adjustments for five years. After five years all balances (obligated and unobligated) are canceled. Obligations outstanding after the five year period must be charged to a current appropriation account of the agency available for the same purpose. There will no longer be any M Accounts.

4. The time period governing availability for obligation varies by the type of funding. Generally the timeframes are 3 years for procurement funds, 2 years for Research, Development, Test & Evaluation (RDT&E), and 1 year for Operations & Maintenance (O&M). The law provides for gradual implementation of the closing of various accounts. The first milestone requires identification of payments required to be made from obligated balances that expired at the end of FY 83 or earlier by 6 March 1991. A timetable for transition procedures is provided as Enclosure 1. Payment for the obligations identified as expired at the end of FY 83 or prior must be made by 4 May 1991 or they will have to be made out of current appropriations.

5. These changes make it imperative that contracts are closed in accordance with the timeframes. After the end of each time period, funds for payment or adjustment of any remaining contractual obligations will no longer be available. To meet remaining obligations, for those contracts that are not closed, current year funding must be requested from, and obligated by the purchasing activity. The purchasing activities will not be receptive to use of current funding to meet old obligations resulting from resolution of administrative actions long after the items or services have been delivered.

SUBJECT: Fiscal Year (FY) 1991 Appropriation Act Changes Affecting Contract Closeout

6. All steps necessary to close affected contracts must be taken. A partial list of recommended actions is provided as Enclosure 2. Attention should given to completion of outstanding contract reconciliations. We strongly encourage partial close out and settlement on those contracts where there are outstanding and all amounts cannot be settled. Prompt and aggressive management attention must be given to accomplishing the best effort toward resolution of outstanding issues.

7. We recommend that you identify those contractors who have not submitted adequate overhead rate proposals for the affected years. Every effort should be made to impress upon them the necessity of submitting a proposal. The Defense Contract Audit Agency (DCAA) has instructed their Regional Directors to program and prioritize these audits to allow for completion by 28 February 1991 for FY 85 and before. DCAA will not provide for the usual 60 days allowed for contractor rebuttal of their findings. If the contractors nonconcur, DCAA will issue a Form 1 and forward the audit to the Administrative Contracting Officer (ACO) for resolution. They have also instructed their Regional Directors to give priority attention to reviewing final Public Vouchers submitted under any affected contracts.

8. DCAA provided the list at Enclosure 3 of contractors who have not submitted acceptable rate proposals. This information, used in conjunction with your recent Report on Status of Open Overhead Negotiations (RCS DD-DR&E(SA)1558), should enable you to identify those contractors requiring your immediate attention. Also included for your information is a listing provided by DCAA reflecting contractor overhead years that their records show as audited but not settled (Enclosure 4).

9. Request you provide a status report to Headquarters DLA, ATTN: DLA-AC by 15 January 1991. Include in your report the number of contracts and unliquidated obligations that will fall under the March and September 1991 transition dates. Also include information pertaining to contracts that are in litigation or under investigation. Also provide the name and phone number of the person in your District responsible for contract closeout issues. Any questions or suggestions should be directed to Nanette Audet, AV 284-7644 or Commercial (703) 274-7644. The information in this letter should be given the widest possible dissemination.

3 Encl
1. Transition Procedures
2. Recommended Actions
3. Missing Proposals
4. Open Overhead Years

JAMES E. MCNABNAY
Captain, SC, USN
Deputy Executive Director
Contract Management

TRANSITION PROCEDURES

1. 6 March 1991 - All obligated balances for appropriations that expired at the end of FY 83 and before are canceled. Generally, this means that any amounts owed for contracts entered into in 1983 using;

1983 O&M Appropriations,
1982 RDT&E Appropriations, and
1981 Procurement Appropriations,

and prior appropriations are canceled and are no longer available to clear contract obligations. Amounts paid after 6 March 1991, will be charged against current appropriations. It should be noted that costs associated with these contracts will be incurred subsequent to the year of award.

An exception to this provision is that funds do not have to be canceled if there is documentary evidence that, as of 6 March 1991, the associated payment will be made by 4 May 1991.

2. 30 September 1991 - All obligated balances that expired at the end of FY 84 are canceled. This means that any amounts owed for contracts entered into in 1984 using;

1984 O&M Appropriations,
1983 RDT&E Appropriations, and
1982 Procurement Appropriations,

are canceled and are no longer available to clear contract obligations.

3. 30 September 1992 - All obligated balances that expired at the end of FY 85 are canceled. This means that any amounts owed for contracts entered into in 1985 using;

1985 O&M Appropriations,
1984 RDT&E Appropriations, and
1983 Procurement Appropriations,

are canceled and are no longer available to clear contract obligations.

4. 30 September 1993 - All obligated balances that expired at the end of FY 86 are canceled. This means that any amounts owed for contracts entered into in 1986, 1987, and 1988 using;

1986, 1987, 1988 O&M Appropriations,
1985, 1986, 1987 RDT&E Appropriations, and
1984, 1985, 1986 Procurement Appropriations,

are canceled and are no longer available to clear contract obligations.

RECOMMENDED ACTIONS

1. Complete reconciliations of Fixed Price Contracts

2. Complete negotiations of outstanding DCAA Form 1s and open overheads, where possible.

3. For those contractors whose rates were audit determined, and any where negotiations have been successfully concluded, ensure that contractors submit their final Public Vouchers.

4. Ensure that contractors submit overhead proposals for open years.

5. Encourage expansion of the use of quick closeout procedures especially where contractors may have few cost type contracts and there is not a significant cost impact on the Government.

6. Accomplish partial closeout and settlement where all outstanding issues and amounts pending payment cannot be settled.

Enclosure 2

ACTIVITIES VISITED OR CONTACTED

Office of the Secretary of Defense

Assistant Secretary of Defense (Production and Logistics), Washington, DC
Comptroller of the Department of Defense, Washington, DC

Department of the Army

U.S. Army Missile Command, Redstone Arsenal, AL

Defense Agencies

Defense Contract Audit Agency, Alexandria, VA
Defense Logistics Agency, Alexandria, VA
- Defense Contract Management District West, Los Angeles, CA
  - Defense Contract Management Area Operations, El Segundo, CA
  - Defense Contract Management Area Operations, San Diego, CA
  - Defense Contract Management Area Operations, San Francisco, CA
  - Defense Contract Management Area Operations, Santa Ana, CA
  - Defense Contract Management Area Operations, Van Nuys, CA
  - Defense Plant Representative Office, FMC, San Jose, CA
  - Defense Plant Representative Office, Ford Aerospace, Newport Beach, CA
  - Defense Plant Representative Office, General Dynamics, San Diego, CA
  - Defense Plant Representative Office, Hughes, Fullerton, CA
  - Defense Plant Representative Office, McDonnell Douglas, Huntington Beach, CA

AUDIT TEAM MEMBERS

David K. Steensma, Director, Contract Management Directorate
Salvatore D. Guli, Program Director
Linda A. Pierce, Project Manager
Rayburn H. Stricklin, Project Manager
Michael Hill, Team Leader
Douglas B. Reed, Team Leader
Phyllis B. Shepphard, Team Leader
Thomas Smith, Auditor
R. Steven Silverstein, Auditor
Beth A. Kilborn, Auditor
Billy J. McCain, Auditor
Leron A. Mims, Auditor

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Assistant Secretary of Defense (Public Affairs)
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Department of the Army

Secretary of the Army
Assistant Secretary of the Army (Financial Management)
Department of the Army Inspector General

Department of the Navy

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Department of the Air Force

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

Defense Activities

Director, Defense Contract Audit Agency
Director, Defense Logistics Agency
Commander, Defense Contract Management District West
Director, Defense Logistics Studies Information Exchange

Non-DoD Activities

Office of Management and Budget

U.S. General Accounting Office,
NSIAD Technical Information Center

Congressional Committees:

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