Audit Report

OFFICE OF THE INSPECTOR GENERAL

ADMINISTRATION OF CONTRACT TERMINATIONS FOR CONVENIENCE

Report No. 92-012 November 13, 1991

Department of Defense

The following abbreviations and acronyms are used in this report.

ACO . . . . . Administrative Contracting Officer
DCAA . . . . . Defense Contract Audit Agency
DCMD . . . . . Defense Contract Management District
DCMDN . . . . . Defense Contract Management District North
DCMDS . . . . . Defense Contract Management District South
DCMDW . . . . . Defense Contract Management District West
DLA . . . . . Defense Logistics Agency
DLAM . . . . . Defense Logistics Agency Manual
FAR . . . . . Federal Acquisition Regulation
GAO . . . . . General Accounting Office
IMCP . . . . . Internal Management Control Program
TAMS . . . . . Terminations Automated Management System
TCO . . . . . Terminations Contracting Officer

INSPECTOR GENERAL
DEPARTMENT OF DEFENSE
400 ARMY NAVY DRIVE
ARLINGTON, VIRGINIA 22202-2884

November 13, 1991

MEMORANDUM FOR DIRECTOR, DEFENSE LOGISTICS AGENCY

SUBJECT: Final Audit Report on Administration of Contract Terminations for Convenience (Report No. 92-012)

This final report is provided for your information and use. Prior to our audit, the Defense Logistics Agency (DLA) had recognized the need to improve and strengthen controls over the termination program. Recent action by DLA to implement the Termination Automated Management System was helpful. Nevertheless, we concluded that DLA management did not have adequate visibility and oversight of the contract termination program. Management comments were considered in preparing this report.

DoD Directive 7650.3 requires that all audit recommendations be resolved promptly. Therefore, you must provide final comments on the unresolved recommendations by January 13, 1992. The comments must indicate concurrence or nonconcurrence in each finding and recommendation addressed to you. If you concur, describe the corrective actions taken or planned, the completion dates for actions already taken, and the estimated completion dates for planned actions. If you nonconcur, state your specific reasons for each nonconcurrence. If appropriate, you may propose alternative methods for accomplishing desired improvements.

The courtesies extended to the audit staff are appreciated. If you have any questions on this audit, please contact Mr. Salvatore D. Guli at (703) 614-6285 (DSN 224-6285) or Mr. Ronald W. Hodges at (703) 614-6264 (DSN 224-6264). The planned distribution of this report is listed in Appendix J.

Edward R. Jones
Deputy Assistant Inspector General
for Auditing

cc:
Director of Defense Procurement
Deputy Assistant Secretary of Defense (Logistics)

Office of the Inspector General, DoD

REPORT NO. 92-012 November 13, 1991
PROJECT NO. 0CF-0071

FINAL AUDIT REPORT ON ADMINISTRATION OF CONTRACT TERMINATIONS FOR CONVENIENCE

EXECUTIVE SUMMARY

Introduction. The administrative phase of contracts terminated for convenience begins when the contracting officer issues a termination notice to the contractor and ends with final settlement and payment of the contractor's termination claim. Federal Acquisition Regulations (FAR) provide general guidelines to administer contract terminations. Within DoD, the Defense Logistics Agency has overall responsibility for administration and settlement of nearly all contracts terminated for convenience.

Objectives. We performed the audit to evaluate the effectiveness of the DoD policies and procedures for administering contracts terminated for convenience. We also evaluated the effectiveness of applicable internal controls and reviewed implementation of the DLA Internal Management Control Program, as it pertained to the administration of contracts terminated for convenience.

Audit Results. The audit showed that DLA took an average of nearly 2 years to settle contracts terminated for convenience. This greatly reduced the ability of DoD to redistribute an estimated $412 million of materials and property (Finding A). In addition, DLA did not effectively manage the contract terminations program. As a result, management lacked an effective basis to determine the resources needed to administer 6,200 contract terminations, valued at about $6.4 billion (Finding B).

Prior to our audit, DLA had recognized the need to improve and strengthen controls over the termination program. Recent action by DLA to implement the Termination Automated Management System was helpful. Nevertheless, we concluded that DLA management did not have adequate visibility and oversight of the contract termination program in the midst of a major reorganization and lacked an effective basis to determine the resources needed to administer contract terminations within DoD.

Internal Controls. Internal controls were not adequate to effectively and efficiently administer contract terminations and to ensure the accuracy of termination data. We did not consider these weakneses to be material. See Findings A and B for details of these weaknesses and page 4 for details of our review of internal controls.

Potential Benefits of Audit. There are no potential monetary benefits associated with this audit. Implementation of the recommendations made in this report will improve the efficiency and effectiveness of the administration of contracts terminated for convenience. A list of the potential benefits of audit are in Appendix H.

Summary of Recommendations. We recommended that the Director, DLA establish specific standards and procedures that provide for effectively administering contract terminations, develop internal management control objectives and techniques, perform a manpower study, and define management information reporting requirements.

Management Comments. DLA generally concurred with the intent of our recommendations. Additional comments are requested for Recommendations A.1.b.ii. and B.5.a. and must be received by January 13, 1992. Part II of this report contains a full discussion of the responsiveness of each recommendation, and Part IV contains the DLA comments.

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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 Information Officer, Audit Planning and Technical Support Directorate, (703) 693-0340.

PART I: INTRODUCTION

Background

The administration phase of contracts terminated for the convenience of the Government begins when the contracting officer issues a termination notice to the contractor and ends when the contractor receives final payment in settlement of the termination claim. The Federal Acquisition Regulation (FAR) provides general guidelines to administer contract terminations. Since the Defense Logistics Agency (DLA) has overall responsibility for the administration and settlement of nearly all contracts terminated for convenience within DoD, much of the day-to-day guidance for administering these terminations is contained in Defense Logistics Agency Manual (DLAM) 8110.1, *Termination Manual for Contract Administration Services.*

We generally classified terminations for convenience as major and nonmajor. Major terminations involve contracts for a major weapon system or complex program. These terminations may require settlement of claims for as many as 100 different subcontractors totaling millions of dollars. Nonmajor terminations, on the other hand, are less complex and usually require settlement of one or two claims under a contract totaling less than $1 million.

During our audit, the nine Defense Contract Administration Regions within DLA were reorganized into five Defense Contract Management Districts (DCMDs). Although the districts did not administer any major terminations during our audit, they had more than 6,200 nonmajor contract terminations on hand, valued at over $6.4 billion, that were unsettled as of March 31, 1991. This number represented a 360-percent increase in the number of nonmajor terminations on hand since December 31, 1987.

Objectives

An objective of the audit was to evaluate the effectiveness of the DoD policies and procedures for administering contracts terminated for convenience. We also evaluated the effectiveness of applicable internal controls and reviewed the DLA implementation of the Internal Management Control Program, required by the Federal Managers' Financial Integrity Act, as it pertained to the administration of contracts terminated for convenience.

Scope

We performed the audit at DLA Headquarters and the Defense Contract Management District West (DCMDW). DLA is responsible for monitoring performance, providing technical assistance, and developing policy regarding the contract termination program. We selected DCMDW because it was the only district that had fully implemented the Termination Automated Management System (TAMS) to track and account for termination cases. Although we concentrated on these two activities, we also visited or obtained data from the DLA Performance Standards Support Office and the remaining four DCMDs located in the Continental United States. Contracts terminated for convenience that were administered by DLA International District were not included in the scope of the audit.

Audit universe. The audit universe consisted of 386 termination cases, valued at $322 million, which involved terminations for convenience at DCMDW. In all 386 cases, the contractor had submitted a claim, and the claim had been closed between FY 1988 and FY 1990. We statistically sampled 59 termination cases valued at $72 million, to review the administration of contracts terminated for convenience and to test the reliability of the TAMS data. We did not project the results of our review to the universe of all terminated cases at DLA because our test results showed a 41-percent error rate in the TAMS database, which cast doubt on the validity of the data. The sampling methodology and projected error rate are in Appendix G. The Quantitative Methods Division of the DoD Inspector General provided statistical support and assisted in reviewing a DLA work measurement study on the termination function.

Audit methodologies, time frames, and locations. To satisfy our objectives, we reviewed the methods used by DLA to provide technical guidance and oversight of the contract termination program to ensure that contract terminations were effectively performed. We determined whether administration functions for contracts terminated for convenience were adequately accomplished by the DCMDs. We also evaluated the ability of the TAMS to function as an effective management information system.

This program results audit was performed from July 1990 through May 1991 and included reviews of contract termination case files and plant clearance files, policies implemented at DLA, and procedures used to process contracts terminated for convenience at the DCMDs. The audit was performed in accordance with auditing standards issued by the Comptroller General of the United States, as implemented by the Inspector General, DoD, and accordingly included such tests of internal controls as were considered necessary. The basic criteria used to perform the audit are contained in the FAR part 49, "Termination of Contracts"; DLAM 8110.1; and DLAM 8135.1, *Property Administration*. A list of the activities visited or contacted during the audit is Appendix I.

Internal Controls

Internal control program. The Federal Managers' Financial Integrity Act of 1982 and the Office of Management and Budget Circular A-123 require each Federal agency to establish a program to identify significant internal control weaknesses. DLA Regulation 5010.4, *Internal Management Control Program*, June 19, 1987, contains policies and procedures for implementing the internal control program. DLA had assigned internal controls for administration of the contract termination function at the DCMD level only; therefore, DLA termination managers had not implemented any measures to determine the overall effectiveness of the termination program. Also, our reviews showed that Internal Management Control Vulnerability Assessments, conducted by four DCMDs, reported that specific control objectives and techniques were established. The audit determined that these internal control objectives and techniques did not specifically address the time required to administer contract terminations or the accuracy of TAMS data.

Internal control weaknesses. We do not consider the internal control weaknesses to be material; however, the internal control weaknesses, identified in Part II of the report, can be attributed to a lack of specific control objectives and techniques for the timely administration of contracts terminated for convenience and the accuracy of TAMS data. Recommendations A.2.b., A.2.c., A.2.d., and B.6., if implemented, should correct these weaknesses. We could not determine the monetary benefits associated with timely administration of contracts terminated for convenience. A copy of this report will be provided to the

senior official responsible for internal controls within the Defense Logistics Agency

Prior Audits and Other Reviews

Since 1985, there have been 11 audit reports issued on contract termination procedures in DoD. These reports are listed and described in Appendix A.

In June 1990, the General Accounting Office (GAO) started a review on DoD termination procedures and related costs, which is still ongoing. The review was requested by Senator Sasser, Chairman, Senate Budget Committee.

PART II: FINDINGS AND RECOMMENDATIONS

Finding A. Administration of Contracts Terminated for Convenience

DLA took an average of nearly 2 years to process and settle claims for contracts terminated for the convenience of the Government. Delays in termination settlements occurred primarily because of unspecific time frames for establishing termination cases; of unspecific guidance regarding Terminations Contracting Officers' (TCOs) authority to establish and enforce time frames on submission of inventories from terminated contracts and TCOs' responsibility to monitor the plant clearance function for contracts terminated for convenience; and of unspecific management internal control objectives and techniques that addressed the termination for convenience program. As a result, DLA policies and procedures could not effectively ensure that contracts terminated for convenience were administered in a timely manner. Failure to perform terminations in a timely manner was contrary to the FAR and delayed the redistribution of an estimated $412 million of materials and property from terminated contracts.

Background

The primary objective of the administration of contracts terminated for convenience is to ensure that the contractor is compensated promptly and fairly and to ensure the speedy release and reutilization of Government funds and property from terminated contracts. Overall, policies and procedures for administering contracts terminated for convenience are contained in the FAR part 49. FAR 49.105 assigns the responsibility for administering contracts terminated for convenience to the TCO. The FAR states that the TCO shall direct the action required of the contractor to promptly settle termination claims. It also requires that the TCO expedite the settlement by assigning technically qualified Government officials to perform audits of the claim and to conduct

reviews of the termination inventory. In addition, the TCO is required to establish tentative time schedules with the contractor for the submission of inventory schedules and the final settlement proposal.

DLAM 8105.1, *Contract Administration Manual for Contract Administration Services*, and DLAM 8110.1, contain the day-to-day policies and procedures for DCMD personnel responsible for administering contracts terminated for convenience.

Reasons for Delays

Although the FAR requires that terminations be settled as rapidly as possible, contract terminations for convenience took an average of 23 months from date of termination to final settlement (Appendix B). Delays in termination settlements occurred primarily because specific guidance and procedures were not developed by DLA that addressed responsibilities for establishing termination cases, submitting inventory schedules, and overseeing the plant clearance function for terminated contracts.

Establishing termination cases. Our review of 59 termination cases valued at $72 million at DCMDW showed that the days required to establish termination cases ranged widely from 1 to 462 days (Appendix B). We also found that Defense Contract Management District South (DCMDS) took an average of 114 days after the termination notice was received to establish a termination case. These delays occurred even though DLA had issued policy letters in FY 1987 and FY 1990 addressing the delays in establishing termination cases. The policy letters were not effective because DLA did not specify the days required by the Administrative Contracting Officer (ACO) to notify the TCO or prescribe specific time frames for the TCO to establish the Termination Status Report (DD Form 1598) once the ACO had forwarded the termination notice. Also, DCMD managers did not effectively monitor the ACO and TCO notification procedures. For example, discussion with three ACOs associated with our 59 sampled terminations at DCMDW showed that the ACOs did not document when TCOs were notified, and they could not recall what caused the delay, if any, in notification.

In addition, we found that TCOs did not always establish cases when ACOs forwarded terminated contracts. For example, records and

statements made by DCMD Northeast (DCMDN) officials indicated that TCOs had not established 127 termination cases for as long as 9 months after contract termination. As a result, terminated contractors did not obtain required information and settlement forms that would have enabled them to account for terminated inventory and expeditiously prepare and submit a termination settlement claim. A reasonable time for establishing a termination case would be 5 days after the ACO received the termination notice. This time frame would provide ACOs up to 2 days to notify TCOs of the termination notice and also provide the TCOs up to 3 days to establish a Termination Status Report.

Submitting inventory schedules. It took an average of 11 months to receive schedules from contractors on inventories valued at $3.8 million for the 59 cases reviewed at DCMDW (Appendix C). Contractors prepare inventory schedules to identify materials and property acquired or produced under the terminated contract for transfer to the Government. Further analysis of the 59 cases showed that contractors submitted 86 percent of the inventory schedules, valued at $3.3 million, along with the final settlement claim. Inventory schedules were submitted with final claims because the TCOs perceived that they could not require contractors to submit inventory schedules before the submission of the final claim. For example, TCOs indicated that the only specific time requirement regarding terminations is the FAR 1-year limit for contractors to submit the final settlement claim. Therefore, TCOs did not establish stringent time frames with contractors to submit inventory schedules.

FAR 52.249-2(b)(6), "Terminations for Convenience of the Government" clause states that the contractor will immediately transfer title and deliver to the Government, inventory that was acquired or produced for the terminated contract after receipt of the termination notice, and as directed by the contracting officer. Since contracts generally contained this clause, TCOs could have directed the contractor to submit inventory schedules at any time. Untimely submission of inventory schedules delayed the redistribution of an estimated $412 million of materials and property from terminated contracts (Appendix D). In our opinion, TCOs should require contractors to submit inventory schedules within 120 days unless an extension is justified.

Oversight of plant clearance for terminated contracts. TCOs did not oversee the actions taken by property administration

officials assigned to perform the plant clearance function for terminated contracts. The plant clearance function is performed by plant clearance officers to determine the allocability and reuse of inventory associated with terminated contracts. For 45 of the 59 termination cases, totaling $798,000, the processing times for plant clearance cases exceeded the 90-day FAR requirement by as much as 22 months. In the 45 cases, TCOs either failed to determine the reason for delays or failed to take action to expedite the process (Appendix B).

Our review of files and discussions with DCMD personnel disclosed that TCOs rarely reviewed property administration records or obtained feedback from property administrators to ensure that plant clearance was effectively performed. If reviews had been performed, TCOs would have found that disposition instructions for 14 of the 45 cases, valued at $140,000, were not issued for as long as 9 months after the plant clearance period began. For 10 of the 45 cases, valued at $60,000, disposition instructions were issued, but the information was not provided to the TCOs by property administration for up to 15 months.

Not all plant clearance cases for terminated contracts were being reported or tracked by DCMD's personnel. For example, we found that 383 of the 432 plant clearance cases being processed for terminated contracts were not reported or tracked by property administration officials. In effect, the status of these 383 plant clearance cases was unknown to both TCOs and property administration managers. Based on our results, DLA took immediate action and issued a memorandum on March 20, 1991, to all DCMDs that provided instructions on the proper recording of plant clearance cases of terminated contracts. In our opinion, specific control procedures are needed that require TCOs to review plant clearance cases that exceed the 90-day FAR processing time requirements for performing plant clearance.

Internal Management Control Objectives

Audit work was performed at four DCMD offices to determine if an Internal Management Control Program was established. Although programs were established, the DCMDs lacked specific internal management control objectives to ensure that contracts terminated for convenience were timely and effectively administered. DoD Directive 5010.38, *Internal Management Control Program*, April 14, 1987, prescribes guidance for implementing a comprehensive system of

internal management controls that provides reasonable assurance of mission accomplishment while maintaining full accountability over the processes, resources, and operations.

The administration of contract terminations is a mission area defined by the Defense Logistics Agency Regulation 5010.4, *Internal Management Control Program*. Specific internal management control objectives and techniques are needed to ensure that ACOs submit termination notices promptly, that TCOs establish termination cases within 5 working days, that contractors submit inventory schedules within 120 days of termination notice, and that TCOs coordinate with plant clearance officers concerning disposition of terminated inventory 90 days after plant clearance officer acceptance. Without a fully implemented Internal Management Control Program, there is no assurance that terminated contracts will be effectively administered and that an estimated $412 million of terminated inventory will be effectively distributed.

Recommendations for Corrective Action

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

a. Revise the Defense Logistics Agency Manual 8105.1, *Contract Administration Manual for Contract Administration Services*, to require administrative contracting officers to notify termination contracting officers within 2 working days of the termination and to document the date of notifications.

b. Revise the Defense Logistics Agency Manual 8110.1, *Termination Manual for Contract Administration Services*, to:

i. Require termination contracting officers to establish termination cases within 3 working days after receipt of the contract termination notification.

ii. Require contractors to submit inventory schedules within 120 days of contract termination unless the termination contracting officer extends the period and prepares a written justification to support the extension.

c. Issue a policy memorandum to reemphasize the termination contracting officers' responsibilities in Defense Logistics Agency Manual 8110.1, subpart 49.193(e)(iii), requiring close coordination with the plant clearance officer regarding the disposition of termination inventory.

2. We recommend that the Director, Defense Contract Management Command, establish a command-wide directive to:

a. Require termination contracting officers to review the delays in plant clearance cases not performed 90 days after plant clearance officer acceptance of inventory schedules, and to determine the cause of delays.

b. Develop internal management control objectives, based on the revision of Defense Logistics Agency Manual 8110.1, that contain a specific attainable goal for the timely and effective administration of contracts terminated for convenience.

c. Develop internal management control techniques, based on revisions of Defense Logistics Agency Manual 8110.1, that are effective and efficient in accomplishing established control objectives for the timely administration of contracts terminated for convenience.

d. Include the newly developed internal management control objectives and techniques in the annual internal management control program reviews of the contract termination program.

Management Comments

DLA concurred with Recommendations A.1.a., A.1.b.i., A.1.b.ii., A.1.c., and A.2.d., and partially concurred with Recommendations A.2.a., A.2.b., and A.2.c. Regarding Recommendation A.2.a., DLA stated that a program is under development to identify, by TCO, all overdue plant clearance cases. The objective of the program will be to ensure that overdue plant clearance cases are promptly rectified rather than to expend TCO efforts assessing the cause of delays. Regarding Recommendations A.2.b. and A.2.c., DLA stated that internal management control objectives and techniques would be established at the District level.

Audit Response

DLA comments to our recommendations were considered responsive and met the intent of our recommendations. However, DLA did not provide an estimated completion date for Recommendation A.1.b.ii., regarding its plans to revise Defense Logistics Agency Manual 8110.1. In order to comply with DoD Directive 7650.3, we request that DLA provide an estimated completion date for Recommendation A.1.b.ii. in response to the final report.

Finding B. Contract Termination Program Management

DLA did not effectively manage the contract termination program. This condition occurred because standards and procedures were not established to evaluate and measure the effectiveness of the termination program. TAMS did not provide the necessary information to measure performance against standards, once established, or develop trends that could identify the need to revise existing policy for the administration of contract terminations. Critical information in the TAMS database contained a 41-percent error rate that casts doubt on the validity of the information provided. As a result, DLA management did not have adequate visibility and oversight of the contract terminations program, which since the end of 1987, experienced a 360-percent increase in the number of terminations.

In addition, in the midst of a major reorganization, DLA lacked an effective basis to determine the resources needed to administer approximately 6,200 contract terminations valued at about $6.4 billion.

Background

DLA's mission and function. DLAM 5800.1, *Headquarters Organization, Missions, and Functions*, June 22, 1990, requires that the DLA Contract Management Directorate determine the effectiveness of the field utilization of its manpower and resources. Organizationally, the DLA manager of contracts terminated for convenience reports to the Chief of the Contract Administration Division within the Contract Management Directorate. DLAM 5800.1 also requires that the Contract Administration Division develop major policies, plans, procedures, and systems for the effective administration of contracts under its cognizance. Although DLA experienced major organizational and

structural changes during FY 1990, these changes did not reduce DLA's management responsibility to ensure the overall operational effectiveness of its programs.

Termination automated management system. In 1986, the TAMS, a computer program, was developed for use on a personal computer at the Defense Contract Administration Services Region-Los Angeles (now DCMDW). TAMS was designed to function as a database for tracking the termination process at the operational level, from receipt of the termination notice through final termination settlement. In 1987, DLA officials decided to enhance the system for use agency-wide; however, details of the changes were vague. Available documentation indicated that DLA officials expected the revised TAMS to provide them with management and operational reports. On December 14, 1989, DLA conducted an environmental test at the Defense Contract Administration Services Region-Cleveland (now Defense Contract Management Area Office-Cleveland), to determine if the TAMS could satisfactorily perform in an operational environment. The test results showed that TAMS did perform satisfactorily and provided good management reports. As of December 1990, the TAMS program was implemented at all DCMDs.

Operational Effectiveness

Senior DLA management had not established a system to measure the operational effectiveness of the contract termination program. Specifically, standards and procedures were not developed to determine whether the contract termination program was effectively administered or that the program's resources were effectively utilized.

Program administration. DLA management used methods to maintain oversight of the contract termination program that were not adequate to evaluate its operational effectiveness. Management had not established specific standards (targets of performance) and procedures for determining whether the contract termination program was performed in a timely or cost-effective manner. For instance, the FAR requires that most steps in the termination process be completed promptly or immediately; however, DLA management could not evaluate the timeliness of termination activities because specific time frames for measuring performance were not developed. In addition,

management did not establish standards to measure the cost-effectiveness of the administration of contract terminations in the form of dollars generated from sales, reutilization, or return of inventories from terminated contracts. A comparison of the gross settlement amount to the amount claimed by the contractor may also be used to evaluate performance.

DLA management's primary method of oversight was to conduct operational reviews of the termination function during periodic staff assistance visits to contract administration offices in the field. These reviews, for the most part, were based on vague, loosely defined criteria and did not provide a basis for quantitative measurement of program effectiveness. Other methods of oversight were based on management's reaction to concerns raised from the DCMDs and from external sources such as the Congress, the General Accounting Office, or the media.

The oversight methods of DLA did not provide a viable basis for evaluating and monitoring the overall effectiveness of the contract termination program. Specific standards are needed to measure performance in terms of timeliness, quality, and efficiency and provide a baseline from which the DCMDs can evaluate and measure contract termination activities within geographically assigned management areas. These standards, along with existing methods of oversight, will in turn, provide senior DLA managers with the information needed to effectively manage the entire contract termination program and balance available resources with workload requirements.

Resource requirements. DLA had not established an effective method for determining its resource requirements. DLA management used a standard of 35 cases per TCO to estimate the number of termination officers and specialists needed to perform the termination function. Since there was no documentation to show how DLA developed the standard, we were unable to assess its validity. Nevertheless, we found that most contract administration offices carried a work load well above 35 cases per TCO. We also noted that some contract administration offices historically carried a work load much higher than others, as illustrated in Figure 1.

Because specific performance standards were not established to evaluate and measure the effectiveness of contract termination activities, DLA could not determine if higher work loads adversely affected the quality of performance at contract administration offices. For instance,

one terminations branch chief stated that his branch could not adequately analyze, negotiate, settle, and administer the current work load. In his opinion, the branch was on the verge of mission failure. We were unable to substantiate this statement. However, we found that the

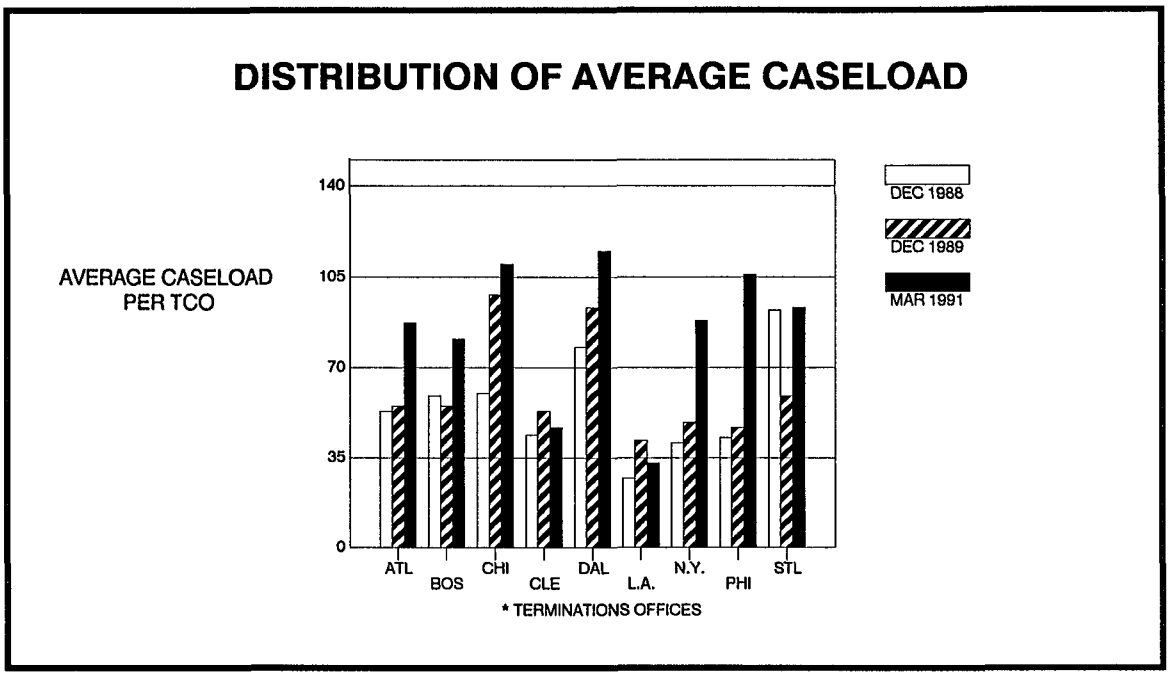

Figure 1.

*There are nine terminations offices within the five DCMDs.

increasing work loads had little, if any, impact on the number of terminations being settled. In fact, the number of terminations settled increased significantly during the 3-year period ended December 31, 1990, despite only a slight increase in program resources to administer the sharp increase in work load. The percentage rate of increase for each of these variables is shown in Figure 2.

An analysis of the data indicated two possible scenarios. First, idle time may have existed prior to the dramatic growth in contract terminations. The data suggested that certain minimum basic resources were available irrespective of the work load. As a result, idle time, which existed in the past, was put to use to accommodate the recent workload increases and would account for the significant increase in termination cases closed. The other possibility was that the significant increase in terminations cases closed, and the expeditious closing of such cases resulted in a

decrease in performance quality. Without standards to establish basic resource requirements and procedures to evaluate program performance, senior DLA officials and DCMD managers could not determine the size or composition of the staff needed to effectively perform the termination function. The DLA Performance Standards Support Office made an attempt to establish standards for the termination function through a work measurement study, dated March 1990. The study used regression analysis and historical workload data to compute work measurement standards.

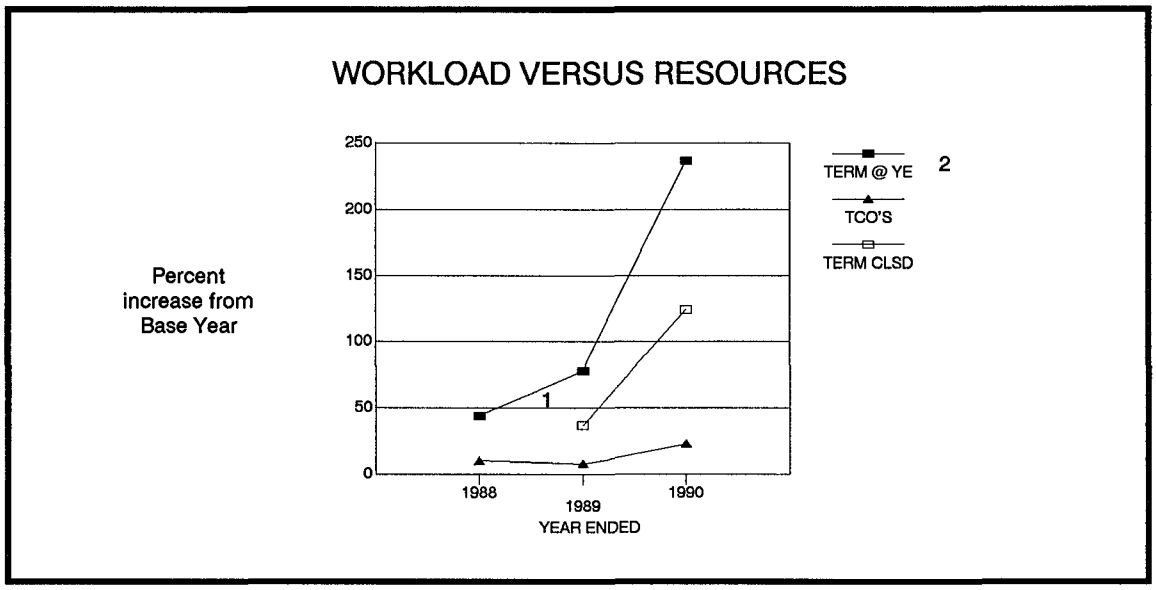

Figure 2.

[1] Data were not available to evaluate the percentage increase for the year ended 1988.

[2] Term @ YE (Terminations at Year-end); TCOs (Termination Contracting Officer); TERM CLSD (Terminations Closed)

We concluded that the regression model was not valid because it did not address the potential idle time, which was hidden in the reported data. DLA acknowledged the disadvantage of using a historical standard by stating that the standard only shows what has happened rather than what should have happened. For example, based on the regression standard, the significant increase in contract terminations during the past 3 years would indicate the need for additional resources, without evaluating whether the current process was efficient and qualitatively effective. DLA management needs to perform another study of the termination process to determine the amount of resources needed to effectively and efficiently administer the contract terminations program.

Balancing resources with increasing workload. In the midst of severe budget constraints and a major reorganization, DLA has experienced a dramatic increase in the number of contract terminations without an effective method of balancing available resources with increasing workload requirements. During 1990, contract administration offices closed approximately 2,700 contract terminations valued at about $734 million, compared to 1,600 terminations valued at $421 million during 1989. Based on the available information, DLA management could not determine if these contract terminations were adequately analyzed and negotiated, or if the quality of performance improved or worsened in the midst of an overwhelming increase in work load. DLA managers need to establish specific standards that would serve as a benchmark for measuring the quality and quantity of performance and provide a basis for determining resource requirements for the contract termination program.

In the interim, DLA should make more effective use of existing resources. For instance, a dedicated team approach to perform terminations within each DCMD would provide an experienced group of personnel that could focus on the more complex terminations. Discussions with TCOs revealed that this approach was used very successfully in the past and during the last major termination. The dedicated team approach assigns nontechnical personnel, such as plant clearance officers and cost analysts, to a team that exclusively performs contract terminations. This approach would ensure continuity on complex or major terminations and prevent delays that occur when contracts terminated for convenience are assigned a low priority by nondedicated technical personnel. In addition, DLA management should evaluate ACOs' work loads to determine if the ACOs can be used as TCOs to perform less complicated terminations.

Management Information System

DLA did not have an adequate management information system to measure and report the operational effectiveness of the contract termination program. The TAMS was not an effective tool for evaluating overall program performance because specific standards and procedures for measuring performance were not established prior to the system's implementation. In addition, standard reports generated by TAMS, which were designed to track and report on key elements of the termination process, were insufficient and uninformative. We also

identified problems with the accuracy of TAMS. The results of our review of TAMS are discussed below.

Using TAMS to measure and report results of performance. DLA management had not defined the management reports they expected to receive from TAMS. The TAMS, once implemented, had the capability to generate 19 standard reports. Only one of these reports contained summary data used by DLA management. The report entitled "Quarterly Report," was simply an automated version of the summary "Contract Termination Status Report" that was previously submitted manually. Because specific standards and procedures were not established to measure the quality, timeliness, and efficiency of performance, the TAMS could not be used to quantitatively measure program results or evaluate changes in program performance.

The "Quarterly Report" provided summary data by the termination office for the number and dollar value of contract terminations on hand, established, and closed during the reporting period. However, the report did not provide summary data on the contractor's proposed settlement cost, the amount questioned during audit of the proposal, or final settlement costs for the terminations that were closed. As a result, DLA managers could not evaluate the effectiveness of the termination program, and DCMDs could not be held accountable for their performance in that area. In addition, DLA could not determine if the increasing work load had an effect on the level of performance as indicated by comparing termination costs to historical costs for similar contract terminations. DLA managers also need to measure and report on the results of performance for other aspects of the termination process. Appendix E lists examples of management reports that could be used to evaluate the quality, timeliness, and efficiency of performance of the contract termination program.

Tracking the status of contract terminations. The TAMS standard reports contained information that would enable users to track the status of open cases and determine the volume of activity during a given period. However, we found that these reports were insufficient and generally were not used by managers at the operational level. For example, the TAMS standard hardcopy report, "Audit Reports Not Received," produces a listing of all cases that had an audit requested, but not received. The report, however, could not be used to analyze the aging of outstanding reports because it sorted only according to docket

number; and it was not a useful tracking device because it did not provide the name of the audit office.

Another standard report, "Plant Clearance Not Received," provided a listing of all dockets having plant clearance services that were requested by TCOs, but not yet received. However, the report could not be used to track the source of delays in the plant clearance process because it did not provide the office location where the plant clearance service was being performed or the number that was assigned to the case. Since the Plant Clearance Division tracks all of its cases by case number, it is essential that any TAMS reports used to track the plant clearance process, should include the plant clearance case number assigned for each contract termination. Examples of other tracking reports that could be used at the operational level are shown in Appendix F.

Ensuring accuracy of the database. To verify the accuracy of TAMS, we selected 6 data elements that we considered critical, from the 80 elements in the TAMS database. Based on the results of our review, we projected an error rate of 41 percent on the entire universe, for those six data elements. The six elements and details of our projection are shown in Appendix G. Although we did not verify the database accuracy at other Districts, we believe that a 41-percent error rate for critical data elements is unacceptable and that information provided by TAMS cannot be relied on for management decisions or changes in policy. DLA management needs to establish adequate internal control techniques over user input to ensure accuracy and reliability of TAMS data. The TAMS should have the reporting capability to routinely provide management with a listing of all transactions input by a specific individual. Transactions should be verified to source documents, and any errors identified should be corrected.

Conclusion

DLA management needs to take aggressive steps to better manage the contract termination program. With the continued decrease in the defense budget, it is anticipated that the number of contract terminations will remain high. In addition, termination of several major weapon systems may occur in the future and will cause a serious drain on experienced personnel. The recommendations contained in this report should provide DLA management with effective tools needed to achieve

better visibility and oversight of the contract termination program in the future.

Recommendations for Corrective Action

We recommend that the Director, Defense Logistics Agency:

1. Establish specific standards and procedures that would provide Defense Contract Management Districts and Defense Logistics Agency management a basis for evaluating quality, timeliness, and efficiency of performance for the contract termination program.

2. Define critical data and reporting requirements for the Termination Automated Management System that will provide managers within the Defense Contract Management Command Districts and Defense Logistics Agency with a method to measure operational effectiveness of the termination program based on established standards and procedures.

3. Perform a manpower requirements study to develop requirements standards for the terminations contracting officer and specialist functions.

4. Determine resource requirements using standards developed through a manpower requirements study.

5. Require the development and implementation of a plan to administer the significant increase in contracts terminated for convenience. The plan should:

a. Establish a dedicated team approach to perform terminations within each Defense Contract Management District.

b. Initiate action to evaluate ACOs' work loads to determine whether they can be used to perform the termination function.

6. Modify the Termination Automated Management System security features so that a report listing of all transactions input by individual system users can be routinely provided to management and used to determine input accuracy and detect inaccuracies committed by a specific system user.

Management Comments

DLA concurred with Recommendations B.1., B.2., and B.3. and partially concurred with Recommendations B.4., B.5.a., B.5.b., and B.6. Regarding Recommendations B.5.a., DLA stated that a dedicated team approach may be very practical when major terminations arise, but it would not be cost-effective on a continuing basis.

Regarding Recommendation B.6., DLA agreed that the accuracy of the TAMS database was important and stated that it would remind the Districts and individual Termination Settlement Operation Branches to conduct periodic checks in order to ensure the accuracy of TAMS. However, DLA questioned the use of the term "improprieties", in the draft report recommendation, pertaining to TAMS security features.

Audit Response

DLA comments to Recommendations B.1., B.2., and B.3. were considered fully responsive. Although DLA partially concurred with Recommendations B.4., B.5.b., and B.6., the actions taken or planned satisfy the intent of our recommendations. We have revised Recommendation B.6. to more accurately reflect our intent.

DLA comments to Recommendation B.5.a. were considered partially responsive. DLA stated that the dedicated team approach would not be cost-effective on a continuing basis. We did not intend that this approach be implemented on a continuing basis. This recommendation was intended as a short-term approach to handling the dramatic increase in nonmajor contract terminations, as discussed on page 20 of Finding B. When work load reaches a manageable level, the dedicated team members could return to their permanent positions, but remain available should they be needed for major contract terminations. We therefore request that DLA reconsider its position for Recommendation B.5.a. in responding to the final report.

PART III: ADDITIONAL INFORMATION

Appendix A: Synopsis of Prior Audit Reports on Contract Terminations

Office of the Inspector General, DoD, Report No. APO 91-003, *Report on Oversight Review of the Defense Contract Audit Agency Audits of Contract Termination Settlement Proposals,* January 15, 1991. The report stated that DCAA's audit coverage for contract termination settlement proposals needed improvement. The report recommended that the Director of DCAA develop a comprehensive training course, revise the audit program for auditing contract terminations settlement proposals, and issue guidance on performing defective pricing audits of contract termination settlement proposals. The Director, DCAA concurred with all three recommendations. Also, a separate memorandum was issued to the Deputy Assistant Secretary of Defense (Procurement) recommending revision to the regulation, DFARS 45.606 that requires a copy of the Inventory Verification Summary be sent to the DCAA auditor.

Office of the Inspector General, DoD, *Contract Audit Follow-up Review of Defense Logistics Agency Termination Offices,* June 29, 1990. The report stated that DLA's "Contract Audit Follow-up Program" was effective. Delays found in processing Defense Contract Audit Agency's audit report, of contractors' proposals, related to individual office priorities and staffing problems rather than a systemic problem. As a result, separate reports were sent to the individual offices reviewed, and no recommendations were made in the report.

Office of the Inspector General, DoD, Report No. 90-043, *Report on the Audit of Plant Clearance Action on Government-Owned Property in the Possession of Defense Contractors,* March 2, 1990. The report stated that excess Government-owned property at contractor locations was not screened for reutilization, proceeds from the disposition of Government-owned property were not verified, and Government-owned property was retained at contractor locations after

contracts were completed and closed. The findings on "Reutilizing Excess Government-Owned Property," "Verifying Proceeds from Sales of Government-Owned Property," and "Incurring Storage Costs" covered the objectives applicable to our contracts terminated for convenience audit. The Assistant Secretary of Defense (Production and Logistics), concurred with the findings and recommendations to implement an automated reutilization system, to monitor the implementation of initiatives in a November 1986 policy memorandum concerning storage of Government property, and to eliminate "no-cost" storage agreements. With the exception of the Air Force and DLA, all agencies concurred with the findings and recommendations. The Air Force partially concurred with the finding and recommendation concerning tracing proceeds through contractors' records. DLA nonconcurred with verifying inventory proceeds through contractors' records.

Office of the Inspector General, DoD, Report No. 90-010, *Summary Report on the Audits of Contract Terminations*, November 21, 1989. The report summarizes the results of three recent audits of contract terminations. The three audits concluded that the Services did not make effective termination decisions at inventory control points. Specifically, Army and Navy inventory control points could have arranged for excess on-order assets that were not terminated and that applied to higher assemblies in production to be used as Government-furnished material on production contracts. Managers at the inventory control points made uneconomical termination decisions on 52 percent of the sampled items evaluated, and about $1.1 billion of excess on-order assets at the Army and Navy inventory control points were overstated by $517.1 million. As a result, the inventory control points unnecessarily brought a projected $156.9 million of excess on-order assets into inventory, and they made an additional $15.9 million of unnecessary expenditures for assets that could have been terminated. The Services agreed with the findings and recommendations contained in the three audit reports. The summary report recommended that the Assistant Secretary of Defense (Production and Logistics) revise and supplement three existing and one proposed Defense policy documents that provided guidance on the use of assets as Government-furnished material. The Assistant Secretary concurred "in principle," but did not specify whether or not the recommended action would be adopted from an ongoing Defense Management Review of DoD Directives and Instructions.

Office of the Inspector General, DoD, Report No. 89-063, *Contract Terminations at Army Inventory Control Points*, March 29, 1989. The report stated that the Army did not have an effective process for making economical contract termination decisions, and the quality of documentation supporting termination decisions and internal controls over the termination decisionmaking process needed improvement. Furthermore, the Army will not be able to establish an effective, efficient termination decisionmaking process until it can accurately quantify the value of excess assets on contracts. The Army initiated procedures during the audit to require that termination decisions be based on a comparison of the cost to terminate versus the cost to hold. The Army also promptly initiated action to terminate contracts and use excess on-order assets as Government-furnished material when the audit identified cost-beneficial situations. Army actions to improve contract termination procedures and reduce costs solved problems. Management comments to the draft of this report did not fully comply with the requirements of DoD Directive 7650.3. The Director of Supply and Maintenance concurred with all the findings and recommendations and described actions that the Army took and planned to take on the recommendations. However, the Director did not specifically comment on internal control weaknesses, and did not provide comments on the potential monetary benefits of the recommendations in the draft report.

Office of the Inspector General, DoD, Report No. 89-040, *Quick-Reaction Report on the Audit of Contract Terminations at the Tank-Automotive Command*, December 14, 1988. The report stated that $9.2 million of unneeded spare parts due-in on seven Tank-Automotive Command contracts and delivery orders could be terminated with little or no cost to the Government or used as Government-furnished material. The report recommended that the Commander, Tank-Automotive Command, recompute requirements for the parts and initiate appropriate action to terminate unneeded spare parts or to use them as Government-furnished material. The report stated that the Army could save about $6.7 million by adopting the recommendation. Management comments were received from the Office of the Deputy Chief of Staff for Logistics, Director of Supply and Maintenance. The Director stated that the Army agreed that actions were needed on the $9.2 million of unneeded assets. He also agreed with a potential savings of $3.9 million and that by May 31, 1989, the Army would decide whether an additional $2.8 million of savings was possible.

Office of the Inspector General, DoD, Report No. 89-004, *Quick-Reaction Report on the Audit of Contract Terminations at Army Inventory Control Points,* October 13, 1988. The report stated that requirement and cost factors indicated that $4.6 million of unneeded spare parts due-in on eight delivery orders of the Aviation Systems Command could be either terminated, used as Government-furnished material on Apache helicopters, or used to offset existing and planned repair programs. The report recommended that the Commander, Aviation Systems Command, verify the cost factors and initiate appropriate action to terminate unneeded parts or to use them as Government-furnished material on Apache helicopters or as offsets to existing and planned repair programs. The report stated that the Army could save $4.1 million by adopting the recommendation. Management comments were received from the Office of the Deputy Chief of Staff for Logistics, Director of Supply and Maintenance. The Director stated that the Army had saved $1.5 million by acting on the recommendation and was taking actions to determine whether an additional $.3 million of savings was possible.

Office of the Inspector General, DoD, Report No. 88-172, *Quick-Reaction Report on the Audit of Contract Terminations at Army Inventory Control Points,* June 17, 1988. This report stated that $3.9 million of unneeded spare parts on two Tank-Automotive Command contracts could be terminated with little or no cost to the Government. The report recommended that the Commander, Tank-Automotive Command, recompute requirements for the parts and initiate appropriate action to terminate unneeded spare parts from contracts. Management comments were received from the Office of the Deputy Chief of Staff for Logistics, Director of Supply and Maintenance. The Director stated that one contract was terminated and the other contract would be terminated pending determination of costs to terminate. The value of the terminated contract was $2.5 million.

Office of the Inspector General, DoD, Report No. 88-153, *Contract Terminations at the Navy Aviation Supply Office,* May 23, 1988. This report addressed various problems in the process that the Aviation Supply Office used to make termination decisions. First, item managers did not identify and consider for termination excess on-order assets. Second, item managers and contracting officers made termination decisions that were not cost-effective. Finally, managers did not establish dollar thresholds to preclude excess on-order assets from receiving termination considerations. The report recommended several actions including: additional procedures for evaluating excess on-order

assets, training programs for item managers and their supervisors on validation procedures, critical elements in item managers' and their supervisors' performance plans covering validation of excess on-order assets, procedures that explain how contracting officers should decide when termination action is in the Government's best interest, performance indicators on the effectiveness of the termination process, and procedures requiring termination considerations on all items valued at $20,000 or more. Further, to minimize the cost effects of past decisions not to terminate and to avoid future termination costs, the report also recommended that the Navy use existing excess on-order and on-hand assets as Government-furnished material on production contracts and that the Navy establish procedures for such use on any assets that become excess in the future. In response to the final audit report, the Principal Deputy Assistant Secretary of the Navy (Shipbuilding and Logistics) concurred with seven of the nine recommendations in the report. On the other two recommendations, the Principal Deputy did not comment on whether the Navy would establish policies and procedures on the use of excess on-order assets as Government-furnished material. The Inspector General, DoD, has initiated action to obtain the Navy's position on the two recommendations.

The General Accounting Office, Report No. GAO/NSIAD-87-141 (OSD Case No. 7242), *Military Procurement: Air Force Should Terminate More Contracts for On-Order Excess Spare Parts,* August 12,1987. This report stated that the Air Force terminated less than 3 percent of the total value of excess on-order aircraft spare parts. It also stated that the Air Force could terminate substantially more procurements of excess on-order parts, thereby reducing the Government's procurement and inventory holding costs and providing the basis for reduced Air Force funding requests. The General Accounting Office recommended improvements in the system and procedures used to identify excess on-order parts and in the procedures used to make termination decisions. The Assistant Secretary of Defense (Production and Logistics) agreed that improvements were needed. The Assistant Secretary did not agree that future aircraft procurement appropriation requests could be reduced if the termination process was improved and stated that any such savings would be applied to other pressing requirements.

The General Accounting Office, Report No. GAO/NSIAD-85-55 (OSD Case No. 6670), *The Navy Can Increase Cancellations of Procurements for Unneeded Material*, March 22, 1985. This report stated that the Navy's inventory control points canceled less than 1 percent of the excess on-order material that was identified by their automated requirements systems. The General Accounting Office found that the Aviation Supply Office and the Ships Parts Control Center established subjective dollar thresholds for the review of excess material, thereby excluding items from consideration for termination action. Also, the inventory control points reduced the amount of excess on-order material by routinely adding protection levels in their termination computations. Further, the General Accounting Office found that inventory managers did not review termination notices in a timely manner, as required by procedural guidance. The report recommended that the Navy establish objectively based thresholds for termination reviews, discontinue use of routine protection levels, perform timely and objective termination reviews, require supervisory reviews of termination evaluations, and establish controls over the conduct of the termination review process. The Principal Deputy Assistant Secretary of Defense (Manpower, Installations, and Logistics) agreed to act on all recommendations except the recommendation pertaining to protection levels. The Deputy Assistant Secretary maintained that protection levels were necessary to prevent items from vacillating between buy and terminations positions.

Appendix B: Schedule of Elapsed Times To Process and Settle Contractors' Claims for Contract Terminations

Termination Case Number	Value of Termination	Days Elapsed Before Notification to TCO[1]	Days Elapsed from Termination to Receipt of Proposal	Days Elapsed to Process Plant Clearance Cases	Days Elapsed from Receipt of Proposal to Final Settlement	Days Elapsed from Contract Termination to Final Settlement
A2132	$9,893,470	9	1,723	N/A[2]	1,064	2,787
N2184	1,739,348	3	364	N/A	2,178	2,537
F5161	1,834,789	34	680	563	1,211	1,891
F6163	190,305	0	1,314	741	422	1,736
L6215	95,750	17	359	98	896	1,255
F6105	591,997	25	875	177	307	1,182
N5144	82,716	9	210	546	750	960
N7188	399,414	33	362	N/A	583	945
F7157	41,456,300	12	626	152	294	920
F7160	145,635	6	282	743	620	902
F7285	7,847	10	570	168	332	902
N7111	1,109,384	8	370	N/A	492	847
F7066	42,845	34	363	286	485	843
N7219	96,995	111	359	539	474	833
F7051	38,856	16	358	217	469	827
N8105	8,305,992	4	405	N/A	411	816
N8132	25,312	93	469	126	343	812

1 TCO – Terminations Contracting Officer

2 N/A – Information Not Available

Termination Case Number	Value of Termination	Days Elapsed Before Notification to TCO	Days Elapsed from Termination to Receipt of Proposal	Days Elapsed to Process Plant Clearance Cases	Days Elapsed from Receipt of Proposal to Final Settlement	Days Elapsed from Contract Termination to Final Settlement
N8084	85,790	42	365	222	426	791
F7247	400,804	2	376	N/A	413	789
F7119	9,149	15	364	N/A	394	758
N6195	94,892	43	78	70	644	722
A8209	9,071	462	573	60	148	721
F7289	15,231	122	305	154	408	713
N9135	65,000	453	452	217	216	668
F8226	44,321	6	174	202	492	666
F7168	64,440	14	282	443	523	653
N8399	191,400	106	64	94	546	610
F7007	14,748	21	134	385	467	601
N8312	123,600	9	404	112	169	573
F8294	19,317	25	52	288	509	561
F8359	10,050	13	107	126	448	555
N9014	11,406	83	95	337	423	518
F7245	1,996,081	16	70	241	443	513
N9181	30,136	197	117	195	377	494
N8337	58,072	62	125	323	368	493
A7211	360,884	20	390	177	100	490
N7143	45,474	86	114	189	360	474
N9086	11,352	10	14	215	456	470
F7071	20,035	10	73	194	382	455
A9137	103,170	28	265	128	176	440
F7231	10,577	20	70	222	369	439

Termination Case Number	Value of Termination	Days Elapsed Before Notification to TCO	Days Elapsed from Termination to Receipt of Proposal	Days Elapsed to Process Plant Clearance Cases	Days Elapsed from Receipt of Proposal to Final Settlement	Days Elapsed from Contract Termination to Final Settlement
F9134	7,350	104	364	N/A	41	436
A7311	1,151,556	9	128	185	294	422
N9133	32,904	5	184	155	227	411
F8134	70,517	8	269	194	129	398
A7079	102,120	43	85	203	305	390
F8361	24,545	24	171	N/A	217	388
F8238	3,155	6	63	125	299	362
F8104	11,536	7	183	87	175	358
N9468	13,902	107	100	188	253	353
N9317	105,084	40	98	223	238	336
N9307	42,108	19	74	146	227	301
F8135	260,570	33	91	115	191	282
F8394	82,716	35	206	148	75	281
A8319	51,090	54	112	117	164	276
F9360	42,379	11	33	111	181	214
F8164	31,200	8	53	57	101	154
F9124	26,233	2	69	21	38	107
N0135	7,425	36	57	131	46	93
TOTAL	**$71,918,345**					
Averages in Months		1.6	9.7	7.5	13.4	23.0

Appendix C: Schedule of Number of Days to Submit Inventory Schedules

Termination Case Number	Date of Termination	Date Inventory Schedules Received	Value of Inventory	Number of Items	Number of Days to Submit Inventory Schedules
A2132	Mar 29, 1982	Dec 22, 1986	$2,173,341	N/A[1]	1,729
N2184	May 25, 1982	Jan 8, 1986	151,745	N/A	1,324
F6105	Nov 1, 1985	Mar 31, 1988	49,190	4,150	881
F6163	Mar 21, 1985	Aug 17, 1987	93,410	N/A	879
F5161	Apr 11, 1985	Mar 9, 1987	101,013	N/A	697
N6195	Mar 20, 1986	Jan 25, 1988	3,787	6,202	676
A8209	Jan 13, 1987	Sep 14, 1988	3,552	100	610
N8132	Dec 3, 1987	June 13, 1989	3,486	75	558
N7188	Apr 2, 1987	Aug 10, 1988	262,601	1	496
N9135	Oct 30, 1987	Jan 24, 1989	19,792	728	452
A7211	May 14, 1987	Aug 4, 1988	1,064	20,729	448
F7051	Oct 28, 1986	Jan 19, 1988	19,525	22	448
N8312	June 22, 1988	Aug 25, 1989	24,040	N/A	429
L6215	Apr 21, 1986	June 16, 1987	905	251	421
F7066	Oct 28, 1986	Dec 17, 1987	3,633	24	415
F7119	Feb 10, 1987	Mar 7, 1988	4,559	19	391
N5144	Apr 8, 1985	May 2, 1986	19,937	N/A	389
N7219	Feb 18, 1987	Mar 7, 1988	7,601	N/A	383
F7247	July 15, 1987	July 21, 1988	10,755	N/A	372
N7111	Jan 28, 1987	Feb 2, 1988	165,223	N/A	370

1 N/A - Information Not Available

Termination Case Number	Date of Termination	Date Inventory Schedules Received	Value of Inventory	Number of Items	Number of Days to Submit Inventory Schedules
N8084	Nov 24, 1987	Nov 23, 1988	$6,970	5	365
F9134	Oct 11, 1988	Oct 10, 1989	7,350	3	364
F8226	Apr 27, 1988	Mar 30, 1989	26,297	2,030	337
N8399	June 7, 1988	May 3, 1989	800	2	330
F7289	May 1, 1987	Mar 23, 1988	2,697	48	327
F8359	Aug 16, 1988	June 28, 1989	3,879	30	316
F7285	Aug 17, 1987	June 27, 1988	2,812	1	315
N7143	Dec 31, 1986	Nov 4, 1987	7,959	7	308
F7168	Apr 8, 1987	Feb 9, 1988	10,860	N/A	307
F7160	Apr 8, 1987	Feb 8, 1988	5,927	880	306
N8337	May 27, 1988	Mar 6, 1989	21,042	2,301	283
F7157	Mar 27, 1987	Dec 18, 1987	89,627	N/A	266
F8294	June 6, 1988	Feb 24. 1989	2,290	2	263
A9137	Dec 30, 1988	Aug 24, 1989	1,148	2	237
N9181	Aug 11, 1988	Mar 31, 1989	3,512	4	232
N9133	Jan 18, 1989	Sep 1, 1989	1,721	100	226
F8361	Aug 5, 1988	Mar 9, 1989	15,467	533	216
F8104	Jan 21, 1988	Aug 12, 1988	7,176	2,087	204
F7071	Dec 1, 1986	June 10, 1987	968	1	191
F7245	July 1, 1987	Jan 4, 1988	20,672	N/A	187
N8105	Jan 28, 1988	June 22, 1988	276,470	112	146
F7231	June 4, 1987	Oct 26, 1987	5,422	1,454	144
N9468	June 5, 1989	Oct 20, 1989	1,105	3	137
N9014	July 22, 1988	Dec 5, 1988	4,812	2	136
F7007	Sep 10, 1986	Jan 22, 1987	8,419	2	134
A8319	May 17, 1988	Sep 27, 1988	20,640	1,709	133
A7311	Sep 2, 1987	Jan 8, 1988	40,038	N/A	128
N9086	Nov 29, 1988	Mar 31, 1989	9,290	46	122
F8135	Feb 1, 1988	May 31, 1988	21,582	2	120
N9307	May 25, 1989	Sep 9, 1989	3,453	1	107
F9124	Jan 10, 1989	Apr 26, 1989	487	N/A	106
A7079	Nov 20, 1986	Mar 2, 1987	17,650	7	102

Termination Case Number	Date of Termination	Date Inventory Schedules Received	Value of Inventory	Number of Items	Number of Days to Submit Inventory Schedules
F8238	May 6, 1988	Aug 16, 1988	$1,211	22	102
F8134	Feb 26, 1988	June 6, 1988	36,577	24	101
N9317	May 22, 1989	Aug 28, 1989	8,899	N/A	98
F8164	Mar 7, 1988	June 11, 1988	6,042	N/A	96
N0135	Dec 19, 1989	Mar 16, 1990	4,950	33	87
F9360	June 29, 1989	Sep 11, 1989	13,836	110	74
F8394	Aug 15, 1988	Oct 7, 1988	47,275	N/A	53
	TOTALS		**$3,886,491**	**43,864**	
	AVERAGE		$65,873	1,044	11 Months

Appendix D: Estimated Value of Termination Inventories

We estimated the value of inventories at $412 million that could be redistributed from contracts terminated for the convenience of the Government. Our computations were based on a simple average of the value of inventories associated with the 59 termination cases reviewed at DCMDW applied to the 6,255 terminations on-hand as of March 1991. We assume that the value of inventories are consistent with our 59 sampled termination cases. Calculations are as follows:

(1) For the 59 contract terminations reviewed, the total value of the termination inventory divided by the number of terminations reviewed, equals the average inventory value for each contract termination.

$3,886,491 divided by 59 = $65,872.72 Average inventory value per termination

(2) For the 6,255 contract terminations in the universe, the average inventory value per termination multiplied by the number of terminations in the universe, equals the total estimated value of the termination inventories.

$ 65,872.72
x 6,255
$412,033,864 Total estimated value of termination inventories

Appendix E: Recommended TAMS Management Reports (DLA Headquarters and District Management)

Recommended Report Description*	Report Objectives	Comparable Existing Reports
1. Average number of days to complete events	Determine average number of days taken for each selected event in the terminations process for cases closed during the reported period.	None exist.
2. Effectiveness of plant clearance process	Determine, of the total amount of inventory submitted to plant clearance, the amount that was: 1. reutilized by other agencies, 2. scrapped or abandoned, and 3. received from sale of inventory.	None exist.
3. Effectiveness of negotiated settlements	Measure the effectiveness of negotiations by comparing the gross settlement amount to the contractor's proposed settlement amount.	None exist.

* Reports provide summary data by Defense Contract Management District.

Appendix F: Recommended TAMS Management and Tracking Reports (Operational Level)

Recommended Report Description	Report Objectives	Comparable Existing Reports
1. Outstanding plant clearance cases	Track open plant clearance cases. Identify overage cases and the cause of the delays.	"Plant Clearance not Received" report provides information on outstanding plant clearance cases but does not provide the plant clearance case number and date plant clearance case was opened. Cases should be sorted in age sequence to enable management to discover the source of delays.
2. Outstanding DCAA audit reports	Track all audit reports currently being performed. Identify overage reports and the source of delays.	"Audit Reports not Received" report lists outstanding audit reports but does not provide the audit report number and location of audit office.
3. Calendar of events and daily alerts	Provide the terminations chief with a current list of deadlines and matters that require immediate attention by TCO. Operational manager could use this as an indicator of TCOs current work load.	None exist.

Recommended Report Description	Report Objectives	Comparable Existing Reports
4. Dockets overage for selected events	Provide the terminations chief a list, by TCO of selected events in the termination process, identifying all dockets that are overage based on established standards.	None exist.

Appendix G: Sampling Methodology and Summary of Projections on TAMS Error Rate

Sampling Methodology. Our sampling objective was to test the reliability of TAMS data for a representative sample of contract terminations administered by DCMDW and project the test results to our audit universe. The sample universe of 386 termination cases was divided into 2 strata. Strata 1 had inventory claims greater than $10,000 and strata 2 had inventory claims less than $10,000. To determine the accuracy of TAMS data, we verified available source documentation for 6 elements that we considered critical on 59 statistically sampled termination cases. The 6 data elements resulted in a universe of 2,316 data elements. Details are shown below.

	Universe	Stratum 1	Stratum 2
Number of Cases	386	103	283
Number of Data Elements	2,316 *	618	1,698

	Sample	Stratum 1	Stratum 2
Number of Cases	59	26	33
Number of Elements Verified	275	132	143
Number of Errors		43	62

* The six data elements selected for review were the termination date, settlement date, proposal date, inventory schedule received date, inventory value, and disposal credit value.

Projection of Error Rate. Using stratified sampling formulas, we projected the errors identified in our review to the sample universe of 2,316 (386 cases x 6 data elements). We computed a 40.5 percent error rate based on the following computation.

$$\frac{\text{938 projected errors}}{\text{2,316 data elements in universe}} = 40.5 \text{ percent}$$

The results of our sample are expressed at a 95-percent confidence level with a relative precision of the error rate of ± 6 percent.

Appendix H: Summary of Potential Benefits Resulting from Audit

Recommendation Reference	Description of Benefits	Type of Benefit
A.1.a., A.1.b.i.	Economy and Efficiency. Correct deficiencies that contribute to delays in the establishment of termination cases.	Undeterminable
A.1.b.ii., A.1.c., A.2.a	Economy and Efficiency. Improve procedures related to the reutilization of termination inventories and timely administration of contracts terminated for convenience.	Undeterminable
A.2.b., A.2.c., A.2.d	Internal Control. Compliance with internal regulations.	Nonmonetary
B.1., B.2., B.3.	Program Results.Improve procedures that identify and correct deficiencies related to the administration of contracts terminated for convenience.	Undeterminable
B.4., B.5.a., B.5.b.	Program Results.Improve procedures for determining and utilizing resources for the contract terminations program.	Undeterminable
B.6.	Internal Control. Improve the accuracy of the TAMS database.	Nonmonetary

Appendix I: Activities Visited or Contacted

Defense Logistics Agency

Headquarters, Defense Logistics Agency, Alexandria, VA

Defense Contract Management District Northeast, Boston, MA
Defense Contract Management District Mid Atlantic, Philadelphia, PA
Defense Contract Management District South, Atlanta, GA
Defense Contract Management District North Central, Chicago, IL
Defense Contract Management District West, Los Angeles, CA
Defense Logistics Agency Performance Standards Support Office, Chicago, IL

Appendix J: Report Distribution

Office of the Secretary of Defense

Director of Defense Procurement
Deputy Assistant Secretary of Defense (Logistics)

Department of the Army

Assistant Secretary of the Army (Financial Management)
Auditor General, U.S. Army Audit Agency

Department of the Navy

Assistant Secretary of the Navy (Financial Management)
Auditor General, Naval Audit Service

Department of the Air Force

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

Defense Agency

Director, Defense Logistics Agency

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

PART IV: MANAGEMENT COMMENTS

Management Comments from Defense Logistics Agency

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

IN REPLY REFER TO DLA-CI

17 OCT 1991

MEMORANDUM FOR ASSISTANT INSPECTOR GENERAL FOR AUDITING,
DEPARTMENT OF DEFENSE

SUBJECT: Draft Audit Report on the Administration of Contract Terminations for Convenience, Project No. OCF-0071

This is in response to your 31 Jul 91 memorandum enclosed is our response to the draft report. The attached report has been approved by Ms. Helen T. McCoy, Deputy Comptroller.

Encl

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

TYPE OF REPORT: AUDIT

PURPOSE OF INPUT: INITIAL POSITION

AUDIT TITLE: Administration of Contract Terminations for Convenience (Project No. OCF-0071)

FINDING A: Administration of Contracts Terminated for Convenience - DLA took nearly 2 years to process and settle claims for contracts terminated for the convenience of the Government. Delays in termination settlements occurred primarily because of unspecific time frames that addressed the establishment of termination cases; of unspecific guidance that addressed TCO's authority to establish and enforce time frames on submission of inventories from terminated contracts and TCO's responsibility to monitor the plant clearance function for contracts terminated for convenience; and of unspecific management internal control objectives and techniques that addressed the termination for convenience program. As a result, DLA policies and procedures could not effectively ensure that contracts terminated for convenience were administered in a timely manner. Failure to perform terminations in a timely manner was contrary to the FAR and greatly reduced the Government's ability to redistribute an estimated $412 million of materials and property from terminated contracts.

DLA COMMENTS: Partially concur. We agree that, IAW FAR 49.105(a)(3), TCOs are tasked with promptly negotiating termination settlements with contractors and that delays should be avoided whenever possible. In addition to the reasons for delays sited in the finding, overall processing of dockets has been complicated by the complexities of the individual terminations dockets and the increased surge in the number of termination cases. We have added a District management position to provide technical guidance and oversight in ensuring the timely processing of termination cases in Termination Settlement Operations Branches under their cognizance. In addition, we have implemented the Termination Automated Management System (TAMS) at all such Branches. As explained in DLA COMMENTS to RECOMMENDATION B.1., we have also established a Process Action Team (PAT) to streamline the termination settlement processes.

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.

ACTION OFFICER: Jean Parry-Hill, DCMC-ACT
PSE REVIEW/APPROVAL: DCMC-A

DLA APPROVAL: Helen T. McCoy, Deputy Comptroller

AUDIT TITLE: Administration of Contract Terminations for Convenience (Project No. OCF-0071)

RECOMMENDATION A.1.a: We recommend that the Director, Defense Logistics Agency, revise the Defense Logistics Agency Manual 8105.1, "Contract Administration Manual for Contract Administration Services," to require administrative contracting officers to notify termination contracting officers within 2 working days of the termination and to document the date of notifications.

DLA COMMENTS: Partially concur. Para. 4.804-9 of DLAM 8105.1 currently requires that ACOs "... immediately notify the DCMD TCO ..." and "... then promptly furnish Comptroller and the TCO a copy of the notice." DLA-AC Letter No AC-87-17A, dated 3 Apr 90 reemphasized those DLAM requirements. However, it appears that delays in ACO notifications continue to be a problem, and all subsequent TCO actions, such as the FAR requirement for release of excess funds within 30 days, are dependent upon receipt of the initial notification. Therefore, we will establish a requirement (via policy letter followed by revision of DLAM 8105.1) for ACOs to transmit the T/C notices to TCOs within seven (7) working days of receipt and to document the transaction. Facsimile transmission (with a copy retained in the ACO's contract file) is a particularly good method to employ as a record of the disposition as automatically generated.

As highlighted in our May 91 Contracts Termination Workshop, untimely transmission of the T/C notice by the PCO to the ACO is also a contributing factor. In accordance with FAR 49.102(b), distribution of the notice to the contract administration office is required simultaneously with distribution to the contractor.

DISPOSITION:
(X) Action is ongoing. Estimated Completion Date - 26 Nov 91.
( ) Action is considered complete.

ACTION OFFICER: Jean Parry-Hill, DCMC-ACT
PSE REVIEW/APPROVAL: DCMC-A

DLA APPROVAL: Helen T. McCoy, Deputy Comptroller

AUDIT TITLE: Administration of Contract Terminations for Convenience (Project No. OCF-0071)

RECOMMENDATION A.1.b.(1): We recommend that the Director, Defense Logistics Agency, revise the Defense Logistics Agency Manual 8110.1, "Termination Manual for Contract Administration Services," to require termination contracting officers to establish termination cases within 3 working days after receipt of the contract termination notification.

DLA COMMENTS: Concur. DFARS 249.105-1 states in part that "Upon receipt of the termination notice, it is the responsibility of the contract administration office to prepare DD Form 1598, Contract Termination Report, ..." The initial 1598 status code for settlement action is "Docket established and assigned to TCO". We agree that a 3 working day period for establishment of individual dockets via entry into TAMS is reasonable and necessary for control purposes. The new 3 working day requirement will be effected by a policy letter followed by appropriate revision of DLAM 8110.1.

DISPOSITION:
(X) Action is ongoing. Estimated Completion Date - 26 Nov 91.
( ) Action is considered complete.

ACTION OFFICER: Jean Parry-Hill, DCMC-ACT
PSE REVIEW/APPROVAL: DCMC-A

DLA APPROVAL: Helen T. McCoy, Deputy Comptroller

AUDIT TITLE: Administration of Contract Terminations for Convenience (Project No. OCF-0071)

RECOMMENDATION A.1.b.(2): We recommend that the Director, Defense Logistics Agency, require contractors to submit inventory schedules within 120 days of contract termination unless the termination contracting officer extends the period and prepares a written justification to support the extension.

DLA COMMENTS: Concur. FAR 49.104 states that "[t]he notice and clause applicable to convenience terminations generally require that the contractor ... [p]romptly submit the contractor's own settlement proposal, supported by appropriate schedules ...." FAR 49.105 lists the establishment of a "... tentative time schedule for negotiation of the settlement, including submission by the contractor and subcontractors of ... inventory schedules ..." as one of many topics that should be discussed by the TCO at the post-termination conference. Receipt of contractor inventory schedules within the 120 day timeframe recommended by the IG could aid in accelerating redistribution of termination inventory and/or the overall termination settlement process, although the following considerations are noted:

a. FAR 45.606-2 stipulates that "The contractor's inventory schedules shall not include any items that the contractor can reasonably use on other work without financial loss ...." The removal of such items 'up front' in the process (i.e., before contractor generation of the inventory schedules) mitigates the Government's overall settlement expense but necessarily requires some time. This is in consonance with the priority given to contractor efforts to dispose of inventory (FAR 45.603) before initiating any screening procedures. Potential benefit to the Govt. from reutilization of property through use of the screening process is not time specific; i.e., regardless of when termination inventory hits the screening process, it can only be reutilized if a need for it is identified at that point in time.

b. The termination settlement proposal itself (supported by inventory schedules) is not required for 1 year or more from the effective date of the termination for convenience. Field offices report that when the inventory schedules are submitted in advance of the settlement proposal, those schedules may be of limited value as extensive changes are necessary. (Contractor cost of preparing the inventory schedules is reimbursable. Also, if such changes occur too far downstream, a new plant clearance case must be opened, necessarily involving additional time and expense.

We do not object to IG initiation of an appropriate DAR Case since any new time restrictions on contractor document submission will necessitate preliminary publication in the Federal Register.

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

ACTION OFFICER: Jean Parry-Hill, DCMC-ACT
PSE REVIEW/APPROVAL: DCMC-A

DLA APPROVAL: Helen T. McCoy, Deputy Comptoller

AUDIT TITLE: Administration of Contract Terminations for Convenience (Project No. OCF-0071)

RECOMMENDATION A.1.c: We recommend that the Director, Defense Logistics Agency, issue a policy memorandum to reemphasize the termination contracting officers' responsibilities in Defense Logistics Agency Manual 8110.1, subpart 49.193(e)(iii), requiring close coordination with the plant clearance officer regarding the disposition of termination inventory.

DLA COMMENTS: Concur. This will be accomplished in conjunction with a letter reemphasizing benefits of inviting Plant Clearance Officers to attend post-termination conferences when termination inventory is a significant element.

DISPOSITION:
(X) Action is ongoing. Estimated Completion Date - 26 Nov 91.
( ) Action is considered complete.

ACTION OFFICER: Jean Parry-Hill, DCMC-ACT
PSE REVIEW/APPROVAL: DCMC-A

DLA APPROVAL: Helen T. McCoy, Deputy Comptroller

AUDIT TITLE: Administration of Contract Terminations for Convenience (Project No. OCF-0071)

RECOMMENDATION A.2.a: We recommend that the Director, Defense Contract Management Command, establish a command-wide directive to require termination contracting officers to review the delays in plant clearance cases not performed 90 days after plant clearance officer acceptance of inventory schedules and to determine the cause of delays.

DLA COMMENTS: Partially concur. A program is under current development (drawing on the TAMS data base) which provides a list of all overdue plant clearance (PLCL) cases by TCO. Para. 49.105(b)(1) of DLAM 8110.1 already requires that TCOs monitor "... those aspects of the termination program which are expected to materially delay settlement, increase costs, or otherwise impede the normal processing of the termination case ...." To follow through on those situations, the status of particular PLCL cases [data entered by Property Management personnel into the DCMC Automated Disposition System (DADS)] is accessible to TCOs via DMINS. Periodic TCO determinations of the cause of all overdue PLCL cases is not deemed practical or cost-effective since both PLCOs and TCOs are under the organizational authority of the same Director of Contract Management. The PLCO is responsible for bringing to the attention of the TCO those contractual issues outside the scope of their authority which may lead to a prolonged plant clearance period; other delays arising in the plant clearance process such as contractor followup or late shipping notices are matters which are settled by the PLCO without TCO assistance. Our objective will be to assure that overdue PLCL cases are promptly rectified rather than with expending TCO effort assessing the cause of each delay. To that end, District management will be directed to take necessary measures to accomplish PLCL actions in a timely manner, in accordance with the FAR.

DISPOSITION:
(X) Action is ongoing. Estimated Completion Date - 26 Nov 91.
( ) Action is considered complete.

ACTION OFFICER: Jean Parry-Hill, DCMC-ACT
PSE REVIEW/APPROVAL: DCMC-A

DLA APPROVAL: Helen T. McCoy, Deputy Comptroller

AUDIT TITLE: Administration of Contract Terminations for Convenience (Project No. OCF-0071)

RECOMMENDATION A.2.b: We recommend that the Director, Defense Contract Management Command, establish a command-wide directive to develop internal management control objectives, based on the revision of Defense Logistics Agency Manual 8110.1, that contains a specific attainable goal for the timely and effective administration of contracts terminated for convenience.

DLA COMMENTS: Partially concur. At the District level, internal management control objectives for the timely and effective administration of contracts terminated for convenience are: TCO establishment of termination cases within 3 working days after receipt of the T/C notice; initial TCO recommendation of release of excess funds within 30 days of receipt of the T/C notice; and effective implementation of the policies and procedures set forth in the FAR, DFARS, various DOD Directives, DLAMs 8110.1 and 8105.1, and DLA-AC policy letters addressing administration of contracts terminated for the convenience of the Government. These objectives will be set forth in DLAM 8110.1, currently undergoing rewrite.

DISPOSITION:
(X) Action is ongoing. Estimated Completion Date - 30 Jun 92.
( ) Action is considered complete.

ACTION OFFICER: Jean Parry-Hill, DCMC-ACT
PSE REVIEW/APPROVAL: DCMC-A

DLA APPROVAL: Helen T. McCoy, Deputy Comptroller

AUDIT TITLE: Administration of Contract Terminations for Convenience (Project No. OCF-0071)

RECOMMENDATION A.2.c: We recommend that the Director, Defense Contract Management Command, establish a command-wide directive to develop internal management control techniques, based on revisions of Defense Logistics Agency Manual 8110.1, that are effective and efficient in accomplishing established control objectives for the timely administration of contracts terminated for convenience.

DLA COMMENTS: Partially concur. We have established separate termination branches at selected DCMAOs, removing them from the direct operational control of the Districts. Additionally, we established a District management position to provide technical guidance and oversight in the T/C area. Specific internal management controls comprise District staff assistance visits (SAVs); TAMS output; Boards of Review, the Contract Audit Followup Program; and the Internal Control Program Reviews required by DLAR 5010.4. These control techniques will be set forth in DLAM 8110.1 currently undergoing rewrite.

DISPOSITION:
(X) Action is ongoing. Estimated Completion Date - 30 Jun 92.
( ) Action is considered complete.

ACTION OFFICER: Jean Parry-Hill, DCMC-ACT
PSE REVIEW/APPROVAL: DCMC-A

DLA APPROVAL: Helen T. McCoy, Deputy Comptroller

AUDIT TITLE: Administration of Contract Terminations for Convenience (Project No. OCF-0071)

RECOMMENDATION A.2.d: We recommend that the Director, Defense Contract Management Command, establish a command-wide directive to include the newly developed internal management control objectives and techniques in the annual internal management control program reviews of the contract termination program.

DLA COMMENTS: Concur. Districts are responsible for performing internal management control reviews of the contract termination program. In order to ensure that internal management control objectives and techniques are included in those reviews and assessments, DLAM 8110.1 will be appropriately revised.

DISPOSITION:
(X) Action is ongoing. Estimated Completion Date - 30 Jun 92.
( ) Action is considered complete.

ACTION OFFICER: Jean Parry-Hill, DCMC-ACT
PSE REVIEW/APPROVAL: DCMC-A

DLA APPROVAL: Helen T. McCoy, Deputy Comptroller

AUDIT TITLE: Administration of Contract Terminations for Convenience (Project No. OCF-0071)

FINDING B: Contract Termination Program Management - DLA did not effectively manage the contract termination program. This condition occurred because standards and procedures were not established to evaluate and measure the effectiveness of the termination program. TAMS did not either provide the necessary information to measure performance against standards, once established, or develop trends that could identify the need to revise existing policy for the administration of contract terminations. Critical information in the TAMS database contained a 41-percent error rate which casts doubt on the validity of the information provided. As a result, DLA management did not have adequate visibility and oversight of the contract terminations program, which since the end of 1987, experienced a 360-percent increase in the number of terminations. In addition, in the midst of a major reorganization, DLA lacked an effective basis to determine the resources needed to administer approximately 6,200 contract terminations valued at about $6.4 billion, and DLA could not rely on the information contained in TAMS to manage the contract termination program.

DLA COMMENTS: Nonconcur. Historically, formal workload measurement standards for the termination settlement function had not existed; development of standards had not been deemed cost-effective in light of the relatively small number of terminations personnel as well as the low and stable volume of dockets. Standards are now being established via a DLA Performance Standards Support Office (DPSSO) study which is presently underway. We also recognized the immediate need for implementation of TAMS; when budget constraints precluded implementation of the system on a local area network (LAN), we took steps to ensure expeditious implementation of TAMS on a stand-alone basis in order to obtain management visibility of the termination workload. In addition, several policy letters were issued by DLA which highlighted the significant increases in terminations for convenience and presented several approaches for alleviating the situation. These steps were initiated prior to the inception of the IG audit, were explained to various IG reviewers, and have either been accomplished or are ongoing.

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.

ACTION OFFICER: Jean Parry-Hill, DCMC-ACT
PSE REVIEW/APPROVAL: DCMC-A

DLA APPROVAL: Helen T. McCoy, Deputy Comptroller

AUDIT TITLE: Administration of Contract Terminations for Convenience (Project No. OCF-0071)

RECOMMENDATION B.1.: We recommend that the Director, Defense Logistics Agency, establish specific standards and procedures that would provide Defense Contract Management District and Defense Logistics Agency management a basis for evaluating quality, timeliness and efficiency of performance for the contract termination program.

DLA COMMENTS: Concur. We will establish standards which assign specific times for completing termination settlements under each of several types of dockets; e.g., No cost settlements, those under or over the audit and tech thresholds but not subject to Board of Review, and those over the threshold for Board of Review. We have also established a position at the District level to monitor the operational effectiveness and adequacy of resources assigned to termination workload at individual Termination Settlement Operation Branches at the DCMAOs within each District. To expedite the contract termination settlement process, we have also established a PAT tasked with developing streamlined procedures for handling termination settlements.

DISPOSITION:
(X) Action is ongoing. Estimated Completion Date - 30 Jun 92.
( ) Action is considered complete.

ACTION OFFICER: Jean Parry-Hill, DCMC-ACT
PSE REVIEW/APPROVAL: DCMC-A

DLA APPROVAL: Helen T. McCoy, Deputy Comptroller

AUDIT TITLE: Administration of Contract Terminations for Convenience (Project No. OCF-0071)

RECOMMENDATION B.2.: We recommend that the Director, Defense Logistics Agency, define critical data and reporting requirements for the Termination Automated Management System that will provide managers within the Defense Contract Management Command Districts and Defense Logistics Agency with a method to measure operational effectiveness of the termination program based on established standards and procedures.

DLA COMMENTS: Concur. As stated above, TAMS will provide managers with visibility to determine that key events in the settlement process (e.g., audit report received, plant clearance completed) have been accomplished.

DISPOSITION:
(X) Action is ongoing. Estimated Completion Date - 30 Jun 92.
( ) Action is considered complete.

ACTION OFFICER: Jean Parry-Hill, DCMC-ACT
PSE REVIEW/APPROVAL: DCMC-A

DLA APPROVAL: Helen T. McCoy, Deputy Comptroller

AUDIT TITLE: Administration of Contract Terminations for Convenience (Project No. OCF-0071)

RECOMMENDATION B.3.: We recommend that the Director, Defense Logistics Agency, perform a manpower requirements study to develop requirements standards for the termination contracting officer and specialist functions.

DLA COMMENTS: Concur. Formal workload measurement standards for terminations were not previously cost-effective as explained in DLA COMMENTS to FINDING B. above. At the inception of the DoD IG audit, DLA advised that a study was ongoing by DPSSO in order to determine the best method for measuring the terminations function. We agree with the IG's assessment that the DPSSO regression analysis approach was inadequate. DPSSO data collection and analysis efforts are continuing, intending to achieve estimated base times and frequencies for actions underlying the termination settlement process. The general consensus at this point is that proposed standards should be established for the following:

a. Docket establishment.

b. No Cost settlements.

c. Settlements involving proposals under the audit/tech threshold.

d. Settlements involving proposals on or over the audit/tech threshold, but not subject to Board of Review.

e. Proposed settlements on or over the threshold for Board of Review.

e. Allowance for work effort not covered by the above.

DISPOSITION:
(X) Action is ongoing. Estimated Completion Date - 30 Jun 92.
( ) Action is considered complete.

ACTION OFFICER: Jean Parry-Hill, DCMC-ACT
PSE REVIEW/APPROVAL: DCMC-A

DLA APPROVAL: Helen T. McCoy, Deputy Comptroller

AUDIT TITLE: Administration of Contract Terminations for Convenience (Project No. OCF-0071)

RECOMMENDATION B.4.: We recommend that the Director, Defense Logistics Agency, determine resource requirements using standards developed through manpower requirements study.

DLA COMMENTS: Partially concur. Future resourcing needs in the T/C arena cannot be precisely forecast as the number of termination dockets are not totally under our control. With the establishment/dissemination of definitive termination workload standards by DPSSO, a stronger quantitative basis will be available, but will not completely eliminate the element of managerial judgment to be applied.

DISPOSITION:
(X) Action is ongoing. Estimated Completion Date - 30 Jun 92.
( ) Action is considered complete.

ACTION OFFICER: Jean Parry-Hill, DCMC-ACT
PSE REVIEW/APPROVAL: DCMC-A

DLA APPROVAL: Helen T. McCoy, Deputy Comptroller

AUDIT TITLE: Administration of Contract Terminations for Convenience (Project No. OCF-0071)

RECOMMENDATION B.5.a: We recommend that the Director, Defense Logistics Agency, require the development and implementation of a plan to administer the significant increase in contracts terminated for convenience. The plan should establish a dedicated team approach to perform terminations within each Defense Contract Management District.

DLA COMMENTS: Partially concur. DLA has recognized the significant increases in T/Cs over time and issued several policy letters to our field offices highlighting the situation and outlining approaches for better management of the dockets. (See also DLA COMMENT B.5.b. below.)

A dedicated team approach (i.e., teams of TCOs unwarranted Contract Termination Specialists, and supporting clerical staff, under the overall management of a Termination Settlement Operations Branch Chief) has been and remains the norm at DCMC, although personnel imbalances may exist from time to time.

The dedicated team concept as described by the IG (i.e., a team of experienced personnel such as TCOs, PLCOs, and cost analysts within each District dedicated exclusively to working termination settlements) is not deemed cost effective on a continuing basis. However, such a team may be practical to assemble when major terminations arise.

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

ACTION OFFICER: Jean Parry-Hill, DCMC-ACT
PSE REVIEW/APPROVAL: DCMC-A

DLA APPROVAL: Helen T. McCoy, Deputy Comptroller

AUDIT TITLE: Administration of Contract Terminations for Convenience (Project No. OCF-0071)

RECOMMENDATION B.5.b: We recommend that the Director, Defense Logistics Agency, require the development and implementation of a plan to administer the significant increase in contracts terminated for convenience. The plan should initiate action to evaluate ACO's work loads to determine whether they can be used to perform the termination function.

DLA COMMENTS: Partially concur. DLA has recognized the significant increases in T/Cs over time and issued several policy letters to our field offices highlighting the situation and outlining approaches for better management of the dockets. DLA-AC advised via Letter No AC-89-53, dated 27 Dec 89, that Contract Administrators (CAs) be considered for handling some lower dollar value/less complex termination dockets; assessment of the capability of ACOs and CAs for performing terminations functions was also specifically addressed in another letter (DLA-AC Letter No. AC-89-53A, dated 29 Mar 91).

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

ACTION OFFICER: Jean Parry-Hill, DCMC-ACT
PSE REVIEW/APPROVAL: DCMC-A

DLA APPROVAL: Helen T. McCoy, Deputy Comptroller

AUDIT TITLE: Administration of Contract Terminations for Convenience (Project No. OCF-0071)

RECOMMENDATION B.6.: We recommend that the Director, Defense Logistics Agency, modify the Termination Automated Management System security features so that a report listing of all transactions input by individual system users can be routinely provided to management and used to determine input accuracy and detect improprieties committed by a specific system user.

DLA COMMENTS: Partially concur. To be a meaningful tool to either first-line users or management, the TAMS data base should be correct. Accuracy should improve as TAMS moves from a stand-alone to a LAN system and both TCOs and clerical data input staff become more familiar with the system. Supervisors at the Termination Settlement Operations Branches have the responsibility for assuring timely, accurate input of all data into the system and for performing analyses of the system to ensure continuing accuracy. We will remind the Districts and individual Termination Settlement Operation Branches to conduct periodic checks in order to assure that this is accomplished. TAMS is an on-line administrative system depicting the current status of each docket in progress. TAMS in no way affects Government liability or expenditure of funds. In light of the above, we question the IG's recommendation for modifying TAMS security features to "... detect improprieties committed by a specific system user."

DISPOSITION:
(X) Action is ongoing. Estimated Completion Date - 26 Nov 91.
( ) Action is considered complete.

ACTION OFFICER: Jean Parry-Hill, DCMC-ACT
PSE REVIEW/APPROVAL: DCMC-A

DLA APPROVAL: Helen T. McCoy, Deputy Comptroller

Audit Team Members

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Orlando H. Yarborough	Team Leader
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Edward J. Lustberg	Auditor
Robert E. Bender	Auditor
Mabel Randolph	Editor
Frank Ponti	Statistician
Robin Young	Administrative Support