Audit Report

DISPOSAL OF EXCESS GOVERNMENT-OWNED PROPERTY IN THE POSSESSION OF CONTRACTORS

Report No. D-2001-004 October 13, 2000

Office of the Inspector General
Department of Defense

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Acronyms

DCMA	Defense Contract Management Agency
DADS	Defense Contract Management Agency Automated Disposition System
MRM	Management Reform Memorandum
NPR	National Performance Review
OUSD (AT&L)	Office of the Under Secretary of Defense for Acquisition, Technology, and Logistics

INSPECTOR GENERAL
DEPARTMENT OF DEFENSE
400 ARMY NAVY DRIVE
ARLINGTON, VIRGINIA 22202-2885

October 13, 2000

MEMORANDUM FOR UNDER SECRETARY OF DEFENSE FOR ACQUISITION, TECHNOLOGY, AND LOGISTICS
DIRECTOR, DEFENSE CONTRACT MANAGEMENT AGENCY

SUBJECT: Audit Report on the Disposal of Excess Government-Owned Property in the Possession of Contractors (Report No. D-2001-004)

We are providing this report for review and comment. This audit was performed in response to allegations to the Defense Hotline that the Defense Contract Management Agency was not meeting the Management Reform Memorandum 5 goal and was falsifying property disposal reports by transferring the accountability of property from one contract to another. We considered management comments on a draft of this report when preparing the final report.

DoD Directive 7650.3 requires that all recommendations be resolved promptly. The Deputy Under Secretary of Defense (Acquisition Reform) comments are responsive. We request that the Director, Defense Contract Management Agency reconsider its position on including transferred, withdrawn, and agency peculiar property in data reported on National Performance Review goals, and provide additional comments on Recommendations A.1. and A.2. by December 13, 2000.

We appreciate the courtesies extended to the audit staff. Questions on the audit should be directed to Mr. Joseph P. Doyle at (703) 604-9349 (DSN 664-9349) (jdoyle@dodig.osd.mil) or Mr. John Yonaitis at (703) 604-9340 (DSN 664-9340). See Appendix C for the report distribution. The audit team members are listed inside the back cover.

Robert J. Lieberman
Assistant Inspector General
for Auditing

Office of the Inspector General, DoD

Report No. D-2001-004 **October 13, 2000**
(Project No. D2000CK-0083)

Disposal of Excess Government-Owned Property in the Possession of Contractors

Executive Summary

Introduction. This audit was initiated in response to allegations to the Defense Hotline that the Defense Contract Management Agency (formerly the Defense Contract Management Command) was falling short of meeting its Management Reform Memorandum 5 goal to dispose of $7 billion of excess Government-owned property by December 31, 1999. The allegation also stated that the Defense Contract Management Agency falsified property disposal reports by transferring the accountability of property from one contract to another and treating that action as a plant clearance disposal action. As of December 31, 1999, the Defense Contract Management Agency reported about $7.3 billion in disposals of excess Government-owned property. This report discusses the accuracy and reliability of the Defense Contract Management Agency reporting as it relates to Management Reform Memorandum 5 and the similar National Performance Review Goal 11b.

Objectives. The overall audit objective was to determine whether the Defense Contract Management Agency plant clearance actions comply with applicable DoD guidance and whether the Defense Contract Management Agency plant clearance cases actually resulted in the disposition of excess Government-owned property reported on the plant clearance actions. We also reviewed the management control program as it applied to the overall objective. See Appendix A for a discussion of the audit process and the review of the management control program.

Results. The allegation that the Defense Contract Management Agency failed to meet its Management Reform Memorandum goal was substantiated. The allegation that property disposal reports were falsified was partially substantiated, in that the reporting was erroneous. We did not conclude that the misreporting was intentional. See Appendix B for a discussion of the allegations to the Defense Hotline.

The Defense Contract Management Agency screening and redistribution of excess and underutilized Government-owned property complied with applicable DoD guidance. However, the Defense Contract Management Agency data reported to Office of the Under Secretary of Defense for Acquisition, Technology, and Logistics on the Management Reform Memorandum 5 goal to dispose of Government-owned property held by Defense contractors was inaccurate and unsupported. As a result, the Defense Contract Management Agency data did not accurately reflect the progress made toward meeting the established goal to dispose of $7 billion in excess property by December 31, 1999. Also, the inaccuracy of the Management Reform Memorandum data raised serious questions as to the accuracy of the reported National Performance Review data related to the initiative to dispose of $3 billion of unneeded special test equipment, special tooling, industrial, and other plant equipment (finding A).

The goal that DoD established to dispose of $7 billion of property under the Management Reform Memorandum 5 initiative was ineffective in reversing the property growth trend and reducing the total amount of property in the possession of contractors. As a result, the total property in the possession of contractors increased by $1.1 billion during the Management Reform Memorandum 5 initiative period. Also, property in the possession of contractors in the property categories specifically addressed in Management Reform Memorandum 5 increased by about $428 million during the period of October 1, 1997 to December 31, 1999 (finding B). For details on the audit results, see the Finding section of the report.

Summary of Recommendations. We recommend that the Defense Contract Management Agency provide property disposal reports to the Under Secretary of Defense for Acquisition, Technology, and Logistics for meeting the extended National Performance Review Goal, that exclude transferred, withdrawn and agency peculiar property from report totals. We also recommend that the Defense Contract Management Agency establish controls for monitoring the compilation and accuracy of property disposal data and to ensure that transferred, withdrawn and agency peculiar data is not reported as a disposal toward meeting the National Performance Review goal. In addition, we recommend that the Under Secretary of Defense for Acquisition, Technology, and Logistics establish realistic long term goals and implementation plans to reduce the total amount of property and to limit the amount of growth for new property in the possession of contractors.

Management Comments. The Defense Contract Management Agency concurred with excluding withdrawn property (losses, reporting errors, duplicate inputs, etc.) from property disposal reports provided to the Under Secretary of Defense for Acquisition, Technology, and Logistics for meeting the extended National Performance Review totals. However, they nonconcurred with excluding transferred and agency peculiar property from property disposal reports because the Defense Contract Management Agency believed that including all transferred and agency peculiar property in disposals was consistent with provisions in the Federal Acquisition Regulations. The Defense Contract Management Agency generally concurred with establishing controls for monitoring the compilation and accuracy of property disposal data reported as disposals that count toward meeting the National Performance Review goal. The Deputy Under Secretary of Defense (Acquisition Reform) concurred with the need to establish long term realistic goals, including appropriate metrics, to reduce the total amount of Government property. For a discussion of management comments, see the Finding section of the report. For the complete text of management comments, see the Management Comments section of the report.

Audit Response. The Deputy Under Secretary of Defense (Acquisition Reform) comments were fully responsive. The Defense Contract Management Agency comments were not responsive. The purpose of the reporting is to track progress in decreasing the amount of Government-owned property in contractor plants. It is simply illogical to maintain that actions that do not remove property from those plants or that relate to exempted items should be reported. We request that the Defense Contract Management Agency provide additional comments on the final report by December 13, 2000.

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Background

The audit was conducted in response to allegations to the Defense Hotline that the Defense Contract Management Agency (DCMA) (formerly the Defense Contract Management Command) was falling short of meeting its Management Reform Memorandum (MRM) 5 goal to dispose of $7 billion of excess Government-owned property by December 31, 1999. The allegations also stated that DCMA falsified property disposal reports by directing that plant clearance officers transfer the accountability of property from one contract to another, treating those actions as plant clearance disposal actions. As of December 31, 1999, DCMA reported about $7.3 billion of excess Government-owned property dispositions (hereafter referred to as property) in the custody of Defense contractors.

Property Initiatives. As of September 30, 1997, the value of property held by DoD contractors was approximately $90.2 billion. The MRM and National Performance Review (NPR) goal 11b were implemented to eliminate excess property in the custody of Defense contractors.

Management Reform Memorandum. The Under Secretary of Defense (Comptroller) issued the MRM, "Disposal of Excess Government-owned Property," on May 21, 1997. The MRM was an initiative included as part of the DoD management reform that executed 17 infrastructure reductions that were proposed in the Quadrennial Defense Review. The MRM directed DCMA to develop a plan to ". . . eliminate excess government-owned property under the stewardship control of Defense contractors." Government property includes items categorized as special tooling, special test equipment, industrial plant equipment, and other plant equipment and material.

National Performance Review. As part of the NPR, DoD established a goal to dispose of $3 billion of excess property consisting of special test equipment, special tooling, industrial, and other plant equipment from contractors' plants by December 31, 1999. Upon completion of that goal, DoD extended the NPR through December 31, 2001 and increased the property disposal goal to $5 billion. The Office of the Under Secretary of Defense for Acquisition, Technology, and Logistics (OUSD[AT&L]) reported NPR results to the NPR Reinvention Impact Center, which reported to the Vice President. OUSD (AT&L) used MRM disposal results to estimate NPR results.

Defense Contract Management Agency. The DCMA administers about 360,000 contracts valued at about $900 billion. DCMA performs a variety of services including Government property oversight, property control, and plant clearance functions. DCMA is divided into the East, West, and International districts.

DCMA Plan and Goal. The DCMA established an implementation plan to eliminate excess property by completing a utilization review of all contracts with $3 million or more of property. The review identified 1,297 contracts at 529 contractor locations. DCMA administers 1,046 of those contracts at 347

contractor locations, and the Military Departments administer the remainder. DCMA also established a goal to increase disposal actions by 20 percent in FYs 1998 and 1999, in an effort to meet the MRM goal of $7 billion in property disposals by December 31, 1999.

DCMA Disposal Reports. The DCMA used the DCMA Automated Disposition System (DADS) in conjunction with manual data from the Military Departments to generate the MRM disposal action reports. DCMA forwarded the disposal action reports to OUSD(AT&L) on a quarterly basis from the first quarter of FY 1998 through the first quarter of FY 2000. OUSD(AT&L) subsequently reported those disposal actions to the Under Secretary of Defense (Comptroller).

Plant Clearance Cases. The DCMA plant clearance officer establishes and enters all plant clearance cases into DADS. The cases include all validated inventory schedules and actions related to the screening, redistribution, and disposal of Government property from a contractor's plant or work site. After the plant clearance officer verifies property disposal, the cases are closed in DADs.

Proposed Rule Change for Government Property. On June 2, 1997, the Civilian Agency Acquisition Council and the Defense Acquisition Regulation Council published a proposed rule to simplify the management and disposition of Government property in the possession of contractors. As a result of public comments received in February 1998 and May 1999, the Councils have revised and restructured the proposed rule. Comments for consideration in the formulation of a final rule were required on or before March 10, 2000. Defense Procurement personnel have stated that the formulation of a final rule concerning property dispositions will occur in October 2000, and a proposed final rule for the management of property should occur in December 2000. The proposed rule changes will include property, definitions, management, performance of Government contracts, documentation and approval requirements, losses, liability for losses, records and reports, accountability, inventory schedules, reutilizations, screening, and disposals.

Objectives

The audit objective was to determine whether the Defense Contract Management Agency plant clearance actions complied with applicable DoD guidance and whether the DCMA plant clearance cases actually resulted in the reduction of excess Government-owned property reported on the plant clearance actions. We also reviewed the adequacy of the management control program as it related to the audit objectives. See Appendix A for a discussion of the audit process and the review of the management control program.

A. Property Reporting

The DCMA data reported to OUSD(AT&L) on the MRM 5 goal to dispose of Government-owned property held by Defense contractors was inaccurate and unsupported. The MRM data was inaccurate because DCMA reported property that was not removed from contractor facilities. DCMA also reported agency peculiar property not included in the MRM. In addition, DCMA used property disposal data from an unreliable system, and did not have adequate management controls established to accurately compile the data. As a result, DCMA data did not accurately reflect the progress made toward meeting the established goal to dispose of $7 billion in excess property by December 31, 1999. Also, the inaccuracy of the MRM data raised serious questions as to the accuracy of the reported NPR data related to the reform initiative to dispose of $5 billion of unneeded special test equipment, special tooling, industrial, and other plant equipment by December 31, 2001.

Inaccurate and Unsupported Property Disposal Data

As of December 31, 1999, DCMA reported that they met the MRM goal of $7 billion and reported final MRM property disposals of about $7.3 billion to the Deputy Secretary of Defense (previously the Under Secretary of Defense (Comptroller) and OUSD(AT&L). However, the DCMA reported MRM data that was inaccurate and unsupported.

DCMA Property Disposal Reports

The DCMA reported MRM data that was inaccurate because they improperly included in disposal reports property transferred between contracts, property withdrawn from plant clearance actions, and agency peculiar property that was exempt from the MRM goals. During the audit, DCMA adjusted MRM totals to remove property that was withdrawn from plant clearance.

Transferred Property. DCMA incorrectly reported property transferred between contracts at the same location as property disposals for MRM. DoD defines transfers of property between contracts as a redistribution. However, those transfers did not eliminate excess property from Defense contractors plants as intended by the MRM. DCMA overstated the amounts reported under the MRM and NPR when transferred property was included in property disposals.

We reviewed 44 plant clearance cases valued at $94.9 million from DCMA-East and one plant clearance case valued at $165 million from DCMA-West. We determined that 3 of the 45 plant clearance cases valued at $185.9 million were transfers of property between contracts. One plant clearance case valued at $165 million for a B-2 test article was identified by the contractor as excess and transferred to another contract at the same contractor location. Two other plant

clearance cases, one valued at $10.8 million and another valued at $10.1 million, were transferred from a contract to a basic ordering agreement at the same contractor location. Although the contractor retained the property in all cases, the plant clearance cases were treated as property disposal actions and reported as part of the MRM and NPR.

Between October 1, 1997, and December 31, 1999, DCMA included about $1.5 billion of redistributed property in reported MRM disposals. This redistributed property amounted to about 20.1 percent of the $7.3 billion in reported MRM disposals. We were unable to determine the value of property transferred between contracts at the same contractor location because the DADS database that was used for tracking plant clearance actions did not accurately identify this information.

Withdrawn Property. The DCMA erroneously reported property that had been withdrawn from the plant clearance process as MRM disposal items. A withdrawal action results when property is identified for disposal and is subsequently withdrawn by either the Government or the contractor for ongoing or future work. Between October 1, 1997 and December 31, 1999, about $585 million or 8.0 percent of the $7.3 billion reported as MRM disposals was actually attributed to property withdrawn from the disposal process.

DCMA Corrective Action. During the audit, DCMA agreed that property withdrawn from the disposal process was not removed from the contractor facilities and should not have been included as disposal items in the MRM and NPR reports. The DCMA adjusted the MRM and NPR amounts to exclude about $369 million of property classified as withdrawn from inventory. The DCMA could not provide documentation to support that amount; therefore, we question the $369 million adjustment, and believe that additional reductions probably should be made to the reported MRM and NPR disposal totals.

Agency Peculiar Property. The DCMA erroneously included agency peculiar property in reported MRM disposal totals. Agency peculiar property was specifically exempt from the MRM goal and should not have been included as disposal items for MRM reporting. Between October 1, 1997 and September 30, 1998, DCMA reported at least $9.5 million of agency peculiar property as property disposals toward meeting the MRM goal. We readily identified the disposal of this agency peculiar property because it was the only property on the contract. We believe that DCMA reported the disposal of additional agency peculiar property. However, we were unable to determine the total value of the additional agency peculiar property reported because the DADS database that was used for tracking disposal actions, did not accurately show this information.

Support for Property Disposals

The DCMA data used for reporting MRM and NPR property disposals was not supported because the data was obtained from an unreliable property disposal reporting system. DCMA also did not have adequate management controls established to compile property disposal data.

Property Disposal Reporting System. The DCMA used the DADS database to report MRM property disposals. However, the database did not consistently generate accurate summary disposal information or identify the types of property disposed of in the summary disposal reports. The DCMA was aware, prior to the start of the MRM, that the DADS database legacy system was unreliable. The DCMA Government Property Group frequently submitted reports to the system administrator about the inability of the system to calculate accurate disposal data.

Accuracy of Summary Report Data. The DCMA was unable to support MRM report data because the data was generated from an unreliable system. We tested MRM report data obtained from the DADS database to determine the accuracy and reliability of the data. We determined that report totals were inconsistent. For example, DCMA reported $6.5 billion disposal amounts using quarterly reports from DADS from October 1, 1997 to December 31, 1999. However, the DADS summary report disposal amounts for the same period only totaled $6.3 billion or $200 million less than the quarterly report. The remainder of the total $7.3 billion reported for the MRM goal was provided to DCMA by the Services through manual inputs. We further compared quarterly reports with monthly reports for the same period and found differences totaling approximately $300 million. We also found differences in the monthly report totals when the reports were extracted at different times.

Identification of Transfers and Types of Property. The DCMA was unable to support MRM data because the DADS property disposal reports did not readily identify transfers or the disposal of specific types of property. As a result, DCMA submitted MRM property disposal reports that incorrectly included property transferred between contracts and agency peculiar property.

Controls for Compiling MRM Data. The DCMA did not have adequate management controls established to compile MRM property disposal data. The DCMA did not perform sufficient oversight and review of the reported MRM data to ensure reliability. For example, DCMA reported data for disposal actions, and property that should not have been included in the property disposal reports. If DCMA had performed sufficient reviews of the data prior to submitting the MRM disposal reports, the property could have been excluded and manual adjustments could have been made. In addition, DCMA also relied on the information extracted from the DADs database even though they were fully aware of the system's inability to calculate consistent and accurate data. This lack of review by DCMA resulted in a failure to identify simple mathematical errors, which produced inaccurate disposal reports. DCMA also did not include any disclaimers qualifying the accuracy of the reported MRM

data. As a result, there was no assurance that the reported MRM data showed accurate property disposals and progress toward meeting the MRM goal.

National Performance Review Goal. The OUSD(AT&L) used the DCMA reported MRM data as the basis for reporting on the NPR. OUSD(AT&L) determines what is reported for the NPR by applying an annual percentage ranging between 45 and 52 percent to the MRM results to determine disposals of special tooling, and special test equipment. The reporting percentages for the current fiscal year are determined by multiplying the amount of property disposed of quarterly by the prior fiscal year ratio of special test equipment, special tooling, industrial, and other plant equipment to total baseline property. For example, the FY 1998 ratio was 51.5 percent ($21.1 billion/$40.9 billion) multiplied by the MRM reported amounts. Because MRM data was used to calculate the NPR, we must also question the reliability of the $5.1 billion reported in August 2000, towards the NPR goal to dispose of $5.0 billion by December 31, 2001. We believe that DCMA should issue property disposal reports that exclude transferred, withdrawn and agency peculiar property from report totals used to meet the NPR goal.

Summary

The MRM data reported by DCMA was inaccurate and unsupported. As of December 31, 1999, DCMA reported property disposals of $7.3 billion and closed out the MRM initiative. DCMA did not meet the MRM 5 goal because DCMA included in MRM totals, transferred, withdrawn and agency peculiar property. This resulted in reported MRM totals that were overstated by at least $411.4 million. Further, the inaccurate MRM data resulted in misstated NPR totals.

Recommendations, Management Comments and Audit Response

1. **We recommend that the Director, Defense Contract Management Agency provide property disposal reports to the Under Secretary of Defense for Acquisition, Technology, and Logistics for meeting the extended National Performance Review Goal, that exclude transferred, withdrawn and agency peculiar property from report totals.**

Management Comments. The Defense Contract Management Agency concurred with excluding withdrawn property (losses, reporting errors, duplicate inputs, etc.) from property disposal reports provided to the Under Secretary of Defense for Acquisition, Technology, and Logistics for meeting the extended National Performance Review totals. However, the Defense Contract Management Agency nonconcurred with excluding transferred and agency peculiar property. The Defense Contract Management Agency stated that the reported information was consistent with disposal policy in the Federal Acquisition Regulation and the Defense Federal Acquisition Regulation Supplement. In addition, the Defense Contract Management Agency stated, ". . . reporting excess and surplus contractor inventory includes total

redistributions within the owing agency and other agencies." "Total redistributions . . ." include all transfers of excess property regardless of whether the property left a particular facility. Also, Federal Acquisition Regulation part 45.603, "Disposal Methods" states, ". . . an agency may exercise its rights to require delivery of any contractor inventory." This delivery requirement includes transfers of Government property to another Government contract. The Defense Contract Management Agency believes it irrelevant that an item was actually removed from the contractor's facility or was transferred to meet a legitimate need on another contract within the facility.

The Defense Contract Management Agency also disagreed that agency peculiar property should not be included in the Management Reform Memorandum initiative. The Defense Contract Management Agency stated that the goal did not reference any specific classes of property, and disposals were reported for all classes of property, including agency peculiar property.

Audit Response. Although the Defense Contract Management Agency concurred with most of the withdrawn property portion of the recommendation, we believe that property withdrawn and retained by contractors should also be eliminated from disposal reporting. We agree that reporting property transferred between contracts at the same contractor location is consistent with the policy in the Federal Acquisition Regulation and the Defense Federal Acquisition Regulation Supplement for the disposition of Government property. However, the intent of the Management Reform Memorandum and the National Performance Review goals was to report the "elimination" or "disposal" of Government property from the possession of Defense contractors and not to include property merely transferred to other contracts at the same contractor location, or withdrawn and retained by the contractor. The intent of the Federal Acquisition Regulation part 45.603, was to recognize that an agency has the right to require contractors to deliver inventory, including transfers, to other Government agencies or contractors. If the agency does not exercise that right, then the agency should use one of the cited methods (transfers not listed) to "dispose" of the property.

We disagree with the Defense Contract Management Agency concerning agency peculiar property. A memorandum dated September 25, 1997, from the Under Secretary of Defense for Acquisition, Technology, and Logistics to the Secretaries of the Military Departments, and Directors, Defense Agencies stated, ". . . the Military Departments and the Defense Contract Management Agency have developed a plan to eliminate excess Government-owned tooling, equipment, and material [not agency peculiar property] and reduce the amount of underutilized government property in the custody of contractors beginning immediately and concluding by January 1, 2000." In addition, the Defense Contract Management Agency, "Disposition Review Plan for Government Property," only lists special tooling, special test equipment, industrial plant equipment, other plant equipment and material, and does not list agency peculiar property. Also, FAR part 45.301, does not include agency peculiar property in special test equipment, special tooling, Government material, and facilities. In addition, a memorandum dated February 4, 1999, from the Defense Contract Management Agency to the Under Secretary of Defense for Acquisition,

Technology, and Logistics, stated that agency peculiar property was not within the Management Reform Memorandum property universe.

We request that the Defense Contract Management Agency reconsider the management comments concerning transferred, withdrawn, and agency peculiar property, and provide additional comments on the final report.

2. We recommend that the Director, Defense Contract Management Agency establish controls for monitoring the compilation and accuracy of property disposal data and to ensure that transferred, withdrawn and agency peculiar data are not reported as disposals that count toward meeting the National Performance Review goal.

Management Comments. The Defense Contract Management Agency concurred and stated that controls are in place, and were in place during our review, and that withdrawals are no longer reported. In addition, the information reported under the Management Reform Memorandum and National Performance Review initiatives is consistent with disposal policy in the Federal Acquisition Regulation and Defense Federal Acquisition Regulation Supplement. The guidance states that transferred property should not be excluded, and the Defense Contract Management Agency reporting criteria has been embedded in the Defense Acquisition National Performance Review Plan.

The Defense Contract Management Agency agreed that a material management control weakness existed for property withdrawn from plant clearance cases. However, they disagreed that a material management control weakness existed for "transferred property." The Defense Contract Management Agency stated that the reported information was consistent with the Federal Acquisition Regulation and the Defense Federal Acquisition Regulation Supplement. In addition, the Director, Defense Procurement had been informed that the Defense Contract Management Agency could not segregate disposal actions by property classification because of reporting system limitations. Therefore, the total amount of property disposed of each quarter was multiplied by a ratio of special tooling, special test equipment, and equipment to estimate tooling and equipment disposals for meeting the National Performance Review Goal. The Defense Contract Management Agency considers all action complete.

The Defense Contract Management Agency disagreed that they used property disposal data from an unreliable system, and did not have adequate management controls established to accurately compile the data. The Defense Contract Management Agency stated that problems were discovered through management controls before our review, when generating some reports, and changes were made to correct the problems. A report that was generated in July 2000, for the entire Management Reform Memorandum period, showed dispositions totaling $6.3 billion for the Defense Contract Management Agency. That amount was adjusted to $5.9 billion to account for withdraws. The Services also reported disposals of $1.2 billion for a combined total of $7.1 billion, which exceeded the $7 billion Management Reform Memorandum goal by 100 million.

Audit Response. While we recognize that property transfers are a form of redistribution, the inclusion of property transferred between contracts at the

same location, and retained by the same contractors does not eliminate excess property from Defense contractors plants, as intended by the Management Reform Memorandum. The property disposal data base used by the Defense Contract Management Agency to summarize and report property disposals is not capable of separating property transfers that remained at the contractors location, from transfers made to other locations. The Defense Contract Management Agency also can not readily determine whether or not property was removed from contractors facilities.

We do not believe that adequate management controls are in place to accurately report property disposals. The Defense Contract Management Agency should not include property transferred or withdrawn and retained at the same contractor location, or agency peculiar property when reporting disposals to meet the extended National Performance Review goal. The National Performance Review is a measurement of disposed excess special test equipment, special tooling, industrial, and other plant equipment. Federal Acquisition Regulation part 45.301, excludes agency peculiar property from special test equipment, special tooling, Government material, and facilities.

We disagree with the Defense Contract Management Agency that they used a reliable property disposal reporting system. The Defense Contract Management Agency reported on March 14, 2000, to the Under Secretary of Defense for Acquisition, Technology, and Logistics $7.3 billion in disposals, as of December 31, 1999, and that the Management Reform Memorandum goal had been exceeded by $300 million. The same system that generated the data for the March report also produced the July 2000 report cited by the Defense Contract Management Agency in their comments. The Defense Contract Management Agency made adjustments for withdraws, and included the Services in both reports. However, the same property disposal system produced two reports that differed by $200 million even though the same data, time, and parameters were used. In addition, during our review, we could not reconcile the disposal amounts reported by the Defense Contract Management Agency with the amounts in the property disposal system. Also, the Defense Contract Management Agency could not provide accurate support for the amounts reported to the Under Secretary of Defense for Acquisition, Technology, and Logistics. Therefore, we request that the Defense Contract Management Agency reconsider its position on the recommendation and provide comments on the final report.

B. Effectiveness of the MRM 5 Goal

The DoD goal to dispose of $7 billion of property under the MRM 5 initiative was ineffective and did not reduce the total amount of property in the possession of contractors. This goal was ineffective because it failed to address the issue of new property furnished to contractors, and did not measure the net effect of MRM disposals against those increases. As a result, DoD did not reverse the property growth trend or reduce the total amount of property in the possession of contractors. In fact, the total property in the possession of contractors increased by $1.1 billion during the MRM 5 initiative. Also, property in the possession of contractors that was specifically addressed in MRM 5 goal increased by about $428 million during the period of October 1, 1997 through December 31, 1999.

MRM 5 Goal Measurement

The MRM 5 goal that DoD established to dispose of $7 billion of property in the possession of contractors was ineffective and did not reduce the total amount of property in the possession of contractors. Prior to the MRM 5 initiative, property in the possession of Defense contractors increased from about $45 billion in FY 1986 to about $90.2 billion in FY 1997. In an effort to reverse the property growth trend and to reduce the amount of property in the possession of contractors, the Under Secretary of Defense (Comptroller) established the MRM 5 initiative in 1997. DoD established a goal to dispose of $7 billion of excess and underutilized property by December 31, 1999.

Property Measurement to Achieve the Goal. The DoD goal was ineffective because DoD failed to address the issue of new property and did not measure the net effect of MRM disposals against those increases. The DoD goal focused solely on measuring the amount of property disposals and not on reducing the total amount of property in the possession of contractors. Although DCMA reported that the MRM goal was exceeded, the value of property in the property categories addressed in the MRM increased by about $428 million. Also, total property in the possession of contractors as of December 31, 1999 was about $91.3 billion, an increase of $1.1 billion during the initiative period.

The following table shows the beginning value, the ending value, and the changes for the reported MRM property by category. The table shows that even though DCMA reported property disposals of about $7.3 billion as of December 31, 1999, contractors had more property in their possession than they had at the start of the initiative. Three types of property increased and three types of property decreased in value with a net increase of $428 million.

Reported MRM 5 Property
(in millions)[1]

Type of Property[2]	FY 1997[3]	Dec. 31, 1999	Change
Government furnished material	$15,167	$16,700	$1,533
Other plant equipment	8,076	8,600	524
Special test equipment	7,917	7,400	(517)
Contractor acquired material	4,497	3,900	(597)
Special tooling	4,235	3,700	(535)
Industrial plant equipment	725	745	20
Total	**$40,617**	**$41,045**	**$ 428**

Notes:
[1] Dollars are acquisition value of property.
[2] Property included in the MRM initiative.
[3] As of September 30, 1997, the MRM initiative began.

The MRM 5 initiative did not reverse the property growth trend or reduce the total amount of property in the possession of contractors. The DoD goal failed to address new property furnished to contractors, and did not measure or reflect the net effect of MRM disposals against those increases. In order to effectively evaluate whether DoD is successful in reducing the amount of property in the possession of contractors, DoD should establish goals to reduce the total amount of property and to limit the amount of growth for new property in the possession of contractors. DoD should closely monitor the changes in the Contractor Property Management System, especially new property in the possession of contractors. We realize that the proposed rule change for Government property will impact the management and disposition of property held by Defense contractors. However, the changes will not eliminate the need for DoD to establish long term goals and implementation plans to reduce DoD property growth trends, or reduce the total amount of property in the possession of contractors.

Recommendations, Management Comments, and Audit Response

We recommend that the Office of the Under Secretary of Defense for Acquisition, Technology, and Logistics establish realistic long term goals and implementation plans to reduce the total amount of property and to limit the amount of growth for new property in the possession of contractors. The goal should measure the changes in the value of property in the Contractor Property Management System, to include new property in the possession of contractors.

Management Comments. The Deputy Under Secretary of Defense (Acquisition Reform) concurred with the recommendation that long term realistic goals, including appropriate metrics to reduce the total amount of Government property, should be established. Also, in process policy initiatives, including changes to the Federal Acquisition Regulation and DoD Regulations should reduce the amount of Government Property provided to, and in the possession of contractors. These actions are scheduled for completion by March 30, 2001.

Appendix A. Audit Process

Scope and Methodology

Work Performed. The audit focused on the procedures used by DCMA to dispose of Government property at Defense contractors' plants in meeting the MRM goal of $7 billion in property disposals by December 31, 1999. We judgmentally sampled 45 plant clearance cases valued at $259.9 million, which were administered by DCMA field offices.

DoD-Wide Corporate Level Government Performance and Results Act (GPRA) Coverage. In response to the GPRA, the Secretary of Defense annually establishes DoD-wide corporate level goals, subordinate performance goals, and performance measures. This report pertains to achievement of the following goal and performance measure.

> **FY 2001 DoD Corporate Level Goal 2:** Prepare now for an uncertain future by pursuing a focused modernization effort that maintains U.S. qualitative superiority in key warfighting capabilities. Transform the force by exploiting the Revolution in Military Affairs, and reengineer the Department to achieve a 21st century infrastructure **(01-DoD-2).**
> **FY 2001 Subordinate Performance Goal 2.4:** Meet combat forces' needs smarter and faster, with products and services that work better and cost less, by improving the efficiency of DoD acquisition processes **(01-DoD-2.4). FY 2001 Performance Measure 2.4.7:** Disposal of unneeded Government property held by contractors **(01-DoD-2.4.7.).**

DoD Functional Area Reform Goals. Most major DoD functional areas have also established performance improvement reform objectives and goals. This report pertains to achievement of the following functional area objectives and goals.

- **Acquisition Functional Area. Objective:** Internal reinvention. **Goal:** Dispose of $2.2 billion in excess National Defense Stockpile inventories and $3 billion in unneeded Government property while reducing supply inventory by $12 billion. **(ACQ-3.3)**

- **Logistics Functional Area. Objective:** Streamline logistics infrastructure. **Goal:** Implement most successful business practices (resulting in reductions of minimally required inventory levels). **(LOG-3.1)**

General Accounting Office High-Risk Area. The General Accounting Office has identified several high-risk areas in the DoD. This report provides coverage of the Defense Inventory Management high-risk area.

Use of Computer-Processed Data. We did not rely on computer processed data to achieve the audit objectives. However, our review of the property disposal reports generated by the DCMA Automated Disposition System showed different results for the same time period, making the reliability of the system questionable.

Universe and Sample. We reviewed 45 plant clearance cases on 19 contracts for 10 contractors valued at $259.9 million to determine whether DCMA plant clearance actions complied with applicable DoD guidance and to determine whether the plant clearance actions resulted in the actual disposal of property. We judgmentally selected 18 plant clearance cases valued at $66.1 million from the DCMA-Orlando, Florida; 26 plant clearance cases valued at $28.8 million from DCMA-Baltimore, Maryland; and 1 plant clearance case valued at $165 million from DCMA-Northrop Grumman, Hawthorne, California, that were closed between October 1, 1997 and October 31, 1999. The sample represented approximately 3.5 percent of the $7.3 billion reported in MRM disposals as of December 31, 1999.

Audit Type, Period and Standards. We performed this economy and efficiency audit from October 1999 through June 2000 in accordance with auditing standards issued by the Comptroller General of the United States as implemented by the Inspector General, DoD.

Contacts During the Audit. We visited and contacted individuals and organizations within DoD. Further details are available upon request.

Management Control Program Review

DoD Directive 5010.38, "Management Control Program," August 26, 1996, and DoD Instruction 5010.40, "Management Control (MC) Program Procedures," August 28, 1996, requires DoD organizations to implement a comprehensive system of management controls to provide reasonable assurance that programs are operating as intended and to evaluate the adequacy of the controls.

Scope of Review of the Management Control Program. We reviewed management controls for reporting disposition of excess Government-owned property. Specifically, we reviewed management controls over the disposition of excess Government-owned property reported on plant clearance actions at DCMA Headquarters and field offices.

Adequacy of Management Controls. We identified material management control weaknesses for DCMA as defined in DoD Instruction 5010.40. Management controls were not adequate to ensure that closed plant clearance cases that were reopened or withdrawn were not reported as disposals. In addition, management controls were not adequate to ensure property transferred between contracts and property in the custody of contractors was being treated as a disposal. Also, management controls were not adequate to ensure the accuracy of MRM disposals reported to the Under Secretary of Defense for

Acquisition, Technology, and Logistics. The recommendations, if implemented, will correct the deficiencies. A copy of this report will be provided to the senior DCMA official responsible for management controls.

Adequacy of Management's Self-Evaluation. Management's self-evaluation did not detect and report the identified management control weaknesses because DCMA risk assessments established for FYs 1998 and 1999 did not assess property dispositions as part of the DCMA management control program.

Prior Coverage

Reports were issued on Government-owned property in the possession of contractors, however, no prior audit coverage has been completed specifically related to the MRM 5 or NPR 11b goals during the last 5 years.

Appendix B. Summary of Allegations and Audit Results

The summary of allegations to the Defense Hotline and our audit results are discussed in detail in the following paragraphs.

Allegation 1. The DCMA is falling short of meeting its Management Reform Memorandum 5 goal to dispose of $7 billion in excess Government property in the custody of Defense contractors.

Audit Results. The allegation was substantiated. We determined that DCMA did not meet its goal to dispose of $7 billion in excess Government property in the custody of Defense contractors. As of December 31, 1999, DCMA reported final MRM property disposals of $7.3 billion. DCMA included in the MRM disposal report totals at least $411.4 million for property that was transferred to other contracts at the same location, property that was withdrawn from plant clearance actions by the contractor, and agency peculiar property.

Allegation 2. DCMA reports on the disposal of property were falsified because property accountability was transferred from one contract to another and treated as a plant clearance disposal action.

Audit Results. The allegation was partially substantiated. We determined that DCMA considered property transfer from one contract to another contract at the same contractor location as disposal actions and included those actions in the MRM report totals. We believe that property transfers should not have been included in MRM reports because those transfers did not eliminate excess property from Defense contractors' plants as intended by the MRM initiative. However, we found no evidence that DCMA included transferred property in MRM report totals in an attempt to intentionally falsify reports submitted to the OUSD(AT&L). DCMA routinely considered dispositions and disposals to be synonymous and included everything in disposal reports. During the audit, DCMA adjusted report totals provided to OUSD(AT&L) for some of the improper withdrawals.

Appendix C. Report Distribution

Office of the Secretary of Defense

Under Secretary of Defense for Acquisition, Technology, and Logistics
  Deputy Under Secretary of Defense (Acquisition Reform)
  Director, Defense Procurement
Under Secretary of Defense (Comptroller)
  Deputy Chief Financial Officer
  Deputy Comptroller (Program/Budget)
  Director, Program Analysis and Evaluation

Department of the Army

Assistant Secretary of the Army (Financial Management and Comptroller)
Auditor General, Department of the Army

Department of the Navy

Naval Inspector General
Auditor General, Department of the Navy

Department of the Air Force

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

Other Defense Organizations

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

Non-Defense Federal Organizations

Office of Management and Budget

Congressional Committees and Subcommittees, Chairman and Ranking Minority Member

Senate Committee on Appropriations
Senate Subcommittee on Defense, Committee on Appropriations
Senate Committee on Armed Services
Senate Committee on Governmental Affairs
House Committee on Appropriations
House Subcommittee on Defense, Committee on Appropriations

Congressional Committees and Subcommittees, Chairman and Ranking Minority Member (cont.)

House Committee on Armed Services
House Committee on Government Reform
House Subcommittee on Government Management, Information, and Technology, Committee on Government Reform
House Subcommittee on National Security, Veterans Affairs, and International Relations, Committee on Government Reform

Deputy Under Secretary of Defense (Acquisition Reform) Comments

ACQUISITION AND TECHNOLOGY

OFFICE OF THE UNDER SECRETARY OF DEFENSE

3000 DEFENSE PENTAGON
WASHINGTON, DC 20301-3000

18 SEP 2000

MEMORANDUM FOR INSPECTOR GENERAL, DEPARTMENT OF DEFENSE
ATTN: DIRECTOR, CONTRACT MANAGEMENT DIRECTORATE

THROUGH: DIRECTOR, ACQUISITION RESOURCES AND ANALYSIS

SUBJECT: Audit Report on the Disposal of Excess Government-Owned Property in the Possession of Contractors (Project No. D2000CK-0083 formerly Project No. OCK-8101), July 5, 2000

The following is provided as the USD(AT&L) response to the recommendation in the draft DODIG audit report (Project No. D2000CK-0083 dated July 5, 2000) that says, "we recommend that the Office of the Under Secretary of Defense for Acquisition, Technology, and Logistics establish realistic long term goals and implementation plans to reduce the total amount of property and to limit the amount of growth for new property in the possession of contractors. The goal should measure the changes in the value of property in the Contractor Property Management System, to include new property in the possession of contractors."

The USD(AT&L) concurs with the need to establish long term realistic goals, including appropriate metrics, to reduce the total amount of Government Property, including growth for new property, in the possession of contractors. Also, policy initiatives in process, including changes to FAR Part 45 and the DOD 5000 Regulation, are designed to create behavior changes which should reduce the amount of Government Property provided to, and in the possession of, contractors.

Beginning with the Second Quarter FY 2000, the Management Reform Memorandum (MRM) and National Performance Review (NPR) property disposals values reported in the NPR High Impact Agency Quarterly Compendium of Proponent Implementation Plans and in the 4th Semi-annual Progress Report to the Vice President have been adjusted to rectify counting the property withdrawn from plant clearance cases as disposed. These were erroneously included in the earlier MRM and NPR reported totals.

Please contact Mr. Mike Canales, in my office (703) 614-3883 or e-mail: canalem@acq.osd.mil, if additional information is required.

Donna A. Richbourg
for Stan Z. Soloway
Deputy Under Secretary of Defense
(Acquisition Reform)

Defense Contract Management Agency Comments

DEFENSE CONTRACT MANAGEMENT AGENCY
8725 JOHN J. KINGMAN ROAD, SUITE 4539
FORT BELVOIR, VIRGINIA 22060-6221

IN REPLY REFER TO DCMA-OCB

SEP 1 2000

MEMORANDUM FOR DIRECTOR, CONTRACT MANAGEMENT, OFFICE OF THE INSPECTOR GENERAL, DOD

SUBJECT: Draft Audit Report on the Disposal of Excess Government-Owned Property in the Possession of Contractors (Project No. D2000CK-0083, formerly Project No. OCK-8101)

The attached information and comments are provided in response to the subject draft report issued July 5, 2000. We appreciate the opportunity to comment, but I am concerned about the findings of this audit because it questions, after the fact, the scope and content of our tasking under Management Reform Memorandum #5 (MRM #5). My staff and I remain available to support your effort.

If you have any questions, please contact Ms. Zora Blair of my Internal Review Office at 703-767-6272.

TIMOTHY P. MALISHENKO
Major General, USAF
Director

Attachment

Final Report Reference

DCMA Information and Comments to Draft Audit Report on the
Disposal of Excess Government-Owned Property in the Possession of Contractors
(Project No. D2000CK-0083, formerly Project No. OCK-8101)

DoDIG FINDING A: The DCMA data reported to OUSD (AT&L) on the MRM 5 goal to dispose of Government-owned property held by Defense contractors was inaccurate and unsupported. The MRM data was inaccurate because DCMA reported property that was not removed from contractor facilities. DCMA also reported agency peculiar property not included in the MRM. In addition, DCMA used property disposal data from an unreliable system, and did not have adequate management controls established to accurately compile the data. As a result, DCMA data did not accurately reflect the progress made toward meeting the established goal to dispose of $7 billion in excess property by January 1, 2000. Also, the inaccuracy of the MRM data raised serious questions as to the accuracy of the reported NPR data related to the reform initiative to dispose of $3 billion of unneeded special test equipment, special tooling, industrial, and other plant equipment by December 31, 1999.

DCMA COMMENTS: Nonconcur. The information reported under MRM #5 and the NPR is consistent with policy for disposal in the Federal Acquisition Regulation (FAR) and the Defense Federal Acquisition Regulation Supplement (DFARS.)

See audit response to Recommendation A.1. pages 6 and 7

Goal #2 was to "Increase disposition of excess government property by 20% per year in fiscal year 98 and 99 for a total disposition of $7 Billion by December 31, 1999." Here the team's tasking was that "The Military Services and the Defense Contract Management Agency will track excess reporting....and using the current DD From 1638, *Report of Excess and Surplus Contractor Inventory* or equivalent, will report receipts (reports of excess) and dispositions..." We disagree with the statement "MRM data was inaccurate because DCMA reported property that was not removed from contractor facilities." All members of the team, agreed with the use of DD Form 1638 as described in DFARS 245.7205, Reporting Excess and Surplus Contractor Inventory which includes, under Section II, Details of Disposition Actions, Total Redistributions within Owing Agency and other Agencies. "Total Redistributions" include all transfers of excess property regardless of whether the property left a particular facility. Also, FAR 45.603, Disposal methods, also states "An agency may exercise its rights to require delivery of any contractor inventory. This includes transfers of Government property to another Government contract." Whether an item was actually removed from the contractor's facility or was transferred to meet a legitimate need on another contract within the facility is irrelevant.

See audit response to Recommendation A.2. page 8

We disagree with the statement "DCMA also reported agency peculiar property not included in the MRM", Goal #2 did not include references to specific classes of property. DCMA did report disposals for all classes of property (to include agency peculiar property) which is consistent with MRM #5.

We also disagree with the statement "DCMA used property disposal data from an unreliable system, and did not have adequate management controls established to accurately compile the data". We believe the statement is not accurate because DCMA did find the problem through its management controls before the DoDIG review. The system for reporting disposition actions is the DCMA Automated Disposition System (DADS). As with any automated system, problems can be discovered requiring corrections to be made. Problems were discovered when running some of the reports,

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See audit response to Recommendation A.2. page 8

and problems sheets were completed (copies of problem sheets were supplied to the DoDIG). As a result, programming changes were made, the problems were corrected, and DADS was tested before the new version (DADS 1.14) was released. In July 2000, your staff requested that DCMA run a report for the entire MRM #5 period. That report cited dispositions of $6,296,840,118 for DCMA. From that figure, approximately $369 million was withdrawn from plant clearance due to losses, reporting errors, duplicate inputs, etc. The total for DCMA would then be adjusted to $5,927,840,118. The Military Services reported disposals of $1,175,107,096. Combined, the grand total of dispositions is still over the $7 billion goal.

STATUS: Action is considered complete.

DoDIG RECOMMENDATION 1: We recommend that the Director, Defense Contract Management Agency provide property disposal reports to the Under Secretary of Defense for Acquisition, Technology, and Logistics for meeting the extended National Performance Review Goal, that exclude transferred, withdrawn and agency peculiar property from report totals.

DCMA COMMENTS: Concur with "withdrawn property." Since the withdrawal problem (losses, reporting errors, duplicate inputs, etc.) was discovered during the audit, DCMA provided corrected reports to the Under Secretary of Defense for Acquisition, Technology, and Logistics for the report periods FY 98 and 99. During FY 00 all reports have excluded withdrawals and we will continue to exclude withdrawals until the completion of the National Performance Review Goal.

Nonconcur on excluding "transferred and agency peculiar property." Reported information was consistent with policy for disposal in the FAR and the DFARS. DCMA should include transferred property from our reporting requirements. Also, since the inception of the National Performance Review Goal, DCMA has informed the Director of Defense Procurement that we cannot segregate disposal actions by property classification because of report system limitations. DCMA saw no added benefits in expending scarce procurement dollars to reprogram systems to obtain this information solely for the purpose of breaking down dispositions by property classifications. Defense Procurement and the Chairman of the Defense Acquisition National Performance Review High Impact Agency Working Group also agreed. Information was added to the DoD Acquisition Reform Goal #11, Paragraph 11.2.3 (b), Measurements, which states "DoD will track baseline property disposals quarterly. However, disposals are not recorded in the baseline categories. The amount disposed of each quarter in FY 98 was multiplied by the FY 97 ratio of special tooling, special test equipment, and equipment to total baseline property ($21.1B/$40.9B or .515) to estimate tooling and equipment disposals. The amount disposed of each quarter in FY 99 will be multiplied by the FY 98 ratio of special tooling, special test equipment, and equipment to total base property ($20.5 B/$39.3B or .522) to estimate tooling and equipment disposal for FY 99. The amount disposed of each quarter in FY 00 was multiplied by the FY 99 ratio of special tooling, special test equipment, and equipment to total baseline property ($20.7B/$41.3B or .501) to estimate tooling and equipment disposals."

STATUS: Action is considered complete

DoDIG RECOMMENDATION 2: We recommend that the Director, Defense Contract Management Agency establish controls for monitoring the compilation and

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accuracy of property disposal data and to ensure that transferred, withdrawn and agency peculiar data are not reported as disposals that count toward meeting the NPR goal.

DCMA COMMENTS: Concur. Controls are in place and were in place prior to the DoDIG review. Each plant clearance officer is responsible for inputting information into DADS and verifying that the input is correct. Team leaders, supervisors, and Headquarters staff pull and review this data at least on a monthly basis. When problems are discovered, problem sheets are generated and called into the DCMA Help Desk, programming changes are made, the system is tested and then normally, a new version is released. We no longer include withdrawals in the figures we report to the Director, Defense Procurement. The information reported under MRM #5 and the NPR is consistent with policy for disposal in the FAR and the DFARS. We should not exclude transferred property, and our reporting criterion has been embedded in the Defense Acquisition National Performance Review plan.

STATUS: Action is considered complete.

DoDIG FINDING, MANAGEMENT CONTROL PROGRAM: We identified material management control weaknesses. Management controls were not adequate to ensure that closed plant clearance cases that were reopened or withdrawn were not reported as disposals. In addition, management controls were not adequate to ensure property transferred between contracts and property in the custody of contractors was being treated as a disposal. Also, management controls were not adequate to ensure the accuracy of MRM disposals reported to the Under Secretary of Defense for Acquisition, Technology, and Logistics.

DCMA COMMENTS: Concur with "withdrawn" cases. There are many reasons why cases can be withdrawn. They include i.e., discrepancies on the submittal document, transfers to the Defense Reutilization Marketing Office, property transferred between contracts, duplicate entries, etc. Some of these reasons do count as disposals and some do not. When it was discovered during the audit that we were including all withdrawals, DCMA performed a review of the reason why the case was withdrawn. We did remove approximately $369 million from withdrawals and provided revised figures to the Director, Defense Procurement. Since the problem was identified, DCMA has provided reports that do not include any withdrawals.

See audit response to Recommendation A.2. page 8

Nonconcur on "transferred property." Reported information was consistent with policy for disposal in the FAR and the DFARS and our reporting to the Under Secretary of Defense for Acquisition, Technology, and Logistics. (please see explanation under DCMA comments for DoDIG Finding A.)

STATUS: Action is considered complete.

Audit Team Members

Paul J. Granetto
Joseph P. Doyle
John Yonaitis
Lisa Such
Galfrid S. Orr
Wilber Broadus
Christine Haynes