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

REPORT
NO. 91-006

October 22, 1990

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

SUBJECT: Report on the Survey of Warranty Provisions for Construction Projects Within the Department of Defense (Project No. 0CG-0032)

Introduction

This is our final report on the Survey of Warranty Provisions for Construction Projects Within the Department of Defense for your information and use. We made the survey from January through May 1990. The survey objective was to evaluate warranty provisions and practices relating to construction contracts. We also evaluated the internal control procedures applicable to such warranties.

Discussion

The warranty provisions and practices related to construction contracts were generally effective. Construction contracting personnel included warranties in 143 of 146 construction contracts that we reviewed. As is the practice in the construction industry, the warranties in these contracts were not priced separately, so we could not determine if warranty provisions and related costs were reasonable. Warranty provisions and practices for construction contracts were effective for the 1-year period following the Government's acceptance of facilities. However, procedures for identifying and tracking warranties that extended beyond the standard 1-year period had not been effectively implemented at the installation level.

The prescribed list of items covered by warranties was not furnished to the installations when the Government accepted the facilities from the contractors. Since extended warranties were generally buried in the contractor's files, contract specifications, or operations and maintenance manuals, they were not

easily accessible to service maintenance personnel. We discussed this observation with headquarters and district officials of the U.S.Army Corps of Engineers (USACE) and Naval Facilities Engineering Command (NAVFAC). Management agreed to focus contract administration effort on obtaining extended warranty specifications (such as limitations and duration) from the prime contractor, as construction contracting procedures require. Increased management attention to extended warranties should correct deficiencies noted during our review. We consider management's corrective actions sufficient, and therefore we are not making recommendations.

During our survey, we identified a potential criminal violation, which we referred to the Defense Criminal Investigative Service. We did not address this case in our report because of pending investigation and potential litigation.

The survey disclosed no material internal control weaknesses as defined by Public Law 97-255, Office of Management and Budget Circular A-123, and DoD Directive 5010.38. Our survey disclosed a minor internal control weakness over extended warranties, which we discussed with appropriate officials. The officials have since emphasized the procedures for monitoring extended warranties to field activities.

Scope of Survey

To accomplish our objective, we examined the policies and procedures established by each Military Department; interviewed responsible officials from the Office of the Deputy Assistant Secretary of Defense (Installations), Office of the Assistant Secretary of Defense (Production and Logistics); USACE; NAVFAC; and Headquarters, Air Force Civil Engineering Command. We also reviewed practices at the 4 contracting offices and 30 installations where the work was being performed.

We statistically sampled 146 construction contracts awarded by 2 USACE and 2 NAVFAC contracting offices, which were also statistically selected. The contracts selected were awarded from FY 1985 through FY 1989. These contracts, valued at $707 million, were selected from a universe of contracts valued at over $19 billion. The activities visited or contacted during the survey are listed in Enclosure 1.

We reviewed contract documents to determine whether warranty provisions were included in construction contracts and attempted to determine whether they were reasonably priced. We evaluated repair and maintenance records and practices to ascertain whether warranty provisions were invoked when necessary. Also, we reviewed the applicable internal control procedures and practices of the contracting offices and the facility tenants and users.

This performance survey was made from January through May 1990 and was conducted in accordance with auditing standards issued by the Comptroller General of the United States, as implemented by the Inspector General, DoD. Accordingly, we included such tests of internal controls as were considered necessary.

Background

The President's FY 1990 budget proposal estimated that over $8.7 billion will be awarded annually for construction of Department of Defense facilities during FY's 1989 through 1992. Guidance concerning the use of warranties in construction contracts is contained in Federal Acquisition Regulation (FAR), paragraph 52.246-21. This FAR clause requires that the terms and conditions of construction warranties be defined in the contract. The clause further specifies that the contractor's liability for defective materials, installed equipment, and workmanship will continue for 1 year following the Government's acceptance of the facility for use.

USACE plans, designs, and constructs military facilities for the Army and Air Force; NAVFAC performs these functions for the Navy and Marine Corps. Procedures for accepting completed facilities from contractors are promulgated in Engineer Regulation 415-345-38 and Naval Facilities Guide Specification 01730A for USACE and NAVFAC, respectively. Both USACE and NAVFAC require that warranty information be furnished to the installation at the time the facility is completed or occupied by the user. Each regulation requires that a list be prepared showing all products and installed equipment that are covered by warranties and the length of time a warranty is in effect.

Prior Audit Coverage

The U.S. Army Audit Agency issued Report No. SO 87-600, "Warranties for Military Construction Contracts," on June 8, 1987. This audit evaluated procedures for enforcing warranties on military construction projects and recommended improvements in enforcement procedures. The report recommended disseminating warranty information at the installation level and implementing a monitoring system for warranty inspections. The Army concurred with the recommendation. The report did not address warranties during the contracting phase or during transfer to the user.

Report Staffing

We provided a draft of this report to the addressees on July 3, 1990. Because there were no recommendations, no comments were required of management, and none were received. Since there are no unresolved issues, written comments to this report are not required.

We appreciate the courtesies and cooperation extended to the audit staff. The audit team members are listed in Enclosure 2. If you desire to discuss this final report, please contact Mr. Michael Huston, Program Director, at (703) 614-6281 (AUTOVON 224-6281) or Ms. Judith Karas, Project Manager, at (703) 614-3798 (AUTOVON 224-3798). Copies of this report will be distributed to the activities listed in Enclosure 3.

Edward R. Jones
Deputy Assistant Inspector General
for Auditing

Enclosures

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

ACTIVITIES VISITED OR CONTACTED

Office of the Secretary of Defense

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

Department of the Army

Office of the Chief of Engineers, Army Corps of Engineers, Washington, DC
Western Division, Army Corps of Engineers, Sacramento, CA
Fort Ord, Monterey, CA
Oakland Army Base, Oakland, CA
Sierra Army Depot, Susanville, CA
Dugway Proving Ground, Dugway, UT
Norfolk District, Army Corps of Engineers, Norfolk, VA
Baltimore District, Army Corps of Engineers, Baltimore, MD
Aberdeen Proving Ground, Aberdeen, MD
Defense General Supply Center, Richmond, VA
Fort A.P. Hill, VA
Fort Pickett, VA
Fort Monroe, Hampton, VA

Department of the Navy

Headquarters, Naval Facilities Engineering Command, Washington, DC
Western Division, Naval Facilities Engineering Command, San Bruno, CA
Naval Air Station, Fallon, NV
Naval Air Station, Point Mugu, CA
Naval Construction Battalion Center, Port Hueneme, CA
Naval Station, Long Beach, CA
Naval Weapons Station, Seal Beach, CA
Naval Supply Center, Oakland, CA
Naval Air Station, Alameda, CA
Naval Hospital, Oakland, CA
Navy Family Housing, Novato, CA
Naval Air Station, Whidbey Island, WA
Northwest Division, Naval Facilities Engineering Command, Silverdale, WA
Atlantic Division, Naval Facilities Engineering Command, Norfolk, VA
Norfolk Naval Shipyard, Portsmouth, VA
Naval Hospital, Portsmouth, VA
Naval Supply Center, Cheatham Annex, Williamsburg, VA

ACTIVITIES VISITED OR CONTACTED (continued)

Naval Weapons Station, Yorktown, VA
Southwestern Division, Naval Facilities Engineering Command, San Diego, CA
Naval Station, San Diego, CA
Naval Air Station, North Island, CA
Marine Corps Air Station, El Toro, CA
Camp Pendleton, CA
Camp Lejeune, NC
Marine Corps Air Station, Cherry Point, NC
Marine Corps Air Station, New River, NC

Department of the Air Force

McClellan Air Force Base, Sacramento, CA
Hill AFB, Ogden, UT
Beale AFB, Marysville, CA
Langley AFB, Hampton, VA

Defense Logistics Agency

Headquarters, Defense Logistics Agency, Cameron Station, VA
Defense General Supply Center, Richmond, VA

AUDIT TEAM MEMBERS

David K. Steensma, Director, Contract Management Directorate
Michael G. Huston, Program Director
Judith I. Karas, Project Manager
Saundra G. Elion, Team Leader
Roy Tokeshi, Team Leader
Riccardo R. Buglisi, Auditor
Andrew R. MacAttram, Auditor
Charles R. Johnson, Auditor

FINAL REPORT DISTRIBUTION

Office of the Secretary of Defense

Under Secretary of Defense for Acquisition
Assistant Secretary of Defense (Production and Logistics)
Comptroller of the Department of Defense
Deputy Assistant Secretary of Defense (Procurement)

Department of the Army

Secretary of the Army
Assistant Secretary of the Army (Financial Management)
Commander and Chief of Engineers, Army Corps of Engineers

Department of the Navy

Secretary of the Navy
Assistant Secretary of the Navy (Financial Management)
Commander, Naval Facilities Engineering Command

Department of the Air Force

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

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