Audit Report

OFFICE OF THE INSPECTOR GENERAL

DOD CONTRACTING IN EUROPE
U.S. ARMY EUROPE CONTRACTING CENTER
FRANKFURT, GERMANY

Report Number 91-114 August 7, 1991

Department of Defense

Office of the Inspector General, DoD

AUDIT REPORT NO. 91-xxx August xx, 1991
(Project No. 0CD-0067.00)

DOD CONTRACTING IN EUROPE
U.S. ARMY EUROPE CONTRACTING CENTER, FRANKFURT, GERMANY

EXECUTIVE SUMMARY

Introduction. This audit was scheduled as a DoD wide-audit of procurement practices in Europe. The U.S. Army Europe (USAREUR) Contracting Center was selected as the first audit site because it is the largest Army contracting activity in Europe. The USAREUR Contracting Center is responsible for the centralized contracting support of U.S. Army Europe Forces and for contract administration services. Purchases for fiscal year 1989 and for the first half of fiscal year 1990 totaled $583.4 million.

Objectives. The audit objectives were to evaluate procedures and practices that acquisition officials in Europe used in awarding DoD contracts and to determine if contractor selection and award and contract administration procedures were in accordance with applicable laws, regulations, and host nation support agreements. The audit also reviewed the adequacy of internal controls applicable to the audit objectives.

Audit Results. The audit showed that the USAREUR Contracting Center was generally in compliance with applicable laws, regulations, and host nation support agreements. However, the contract administration procedures for administering contracts at the USAREUR Contracting Center needed improvement.

Internal Controls. The internal controls applicable to the contractor selection and award process were effective. However, the internal controls for documentation and surveillance in the contract administration process were not adequate (page 2).

Potential Benefits of Audit. Improved contract file documentation and contract surveillance provide assurance that contracts are being performed in accordance with the requirements and on schedule. There were no monetary benefits identified in this report (Appendix B).

Summary of Recommendations. We recommended that management monitor compliance with contract administration procedures relating to contract surveillance and documentation.

Management Comments. The U.S. Army Contracting Support Agency provided comments on our draft report on July 2, 1991. The Director stated that the Chief, U.S. Army Europe Contracting

Center, has stressed the importance of contract administration and file documentation and has scheduled an internal control review of contract files during July 1991. A complete text of the comments is in Part IV of the report.

Audit Response. We believe the actions taken by the U.S. Army Contracting Center satisfy the intent of the recommendation and consider the issue resolved.

The following acronyms are used in this report.

ACO.....Administrative Contracting Officer
AFAR.....Army Federal Acquisition Regulation
ASPM.....Armed Services Pricing Manual
COR.....Contracting Officer Representative
DFARS.....Defense Federal Acquisition Regulation Supplement
FAR.....Federal Acquisition Regulation
USAREUR.....U.S. Army Europe

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

August 7, 1991

MEMORANDUM FOR ASSISTANT SECRETARY OF THE ARMY (FINANCIAL MANAGEMENT)

SUBJECT: Audit Report on DoD Contracting in Europe, U.S. Army Europe Contracting Center, Frankfurt, Germany (Report No. 91-114)

We are providing this final report for your information and use. Comments on a draft of this report were considered in preparing the final report. The audit objectives were to determine if contractor selection and award and contract administration procedures were in accordance with applicable laws, regulations, and host nation support agreements. The audit also reviewed internal controls applicable to the audit objectives.

The audit showed that the internal controls applicable to the contractor selection and award process were effective. However, the contract administration procedures at the U.S. Army Europe Contracting Center needed improvement. Specifically, the audit identified internal control weaknesses involving contract surveillance and documentation.

On May 8, 1991, a draft of this report was provided the Assistant Secretary of the Army (Financial Management). We received comments from the the U.S. Army Contracting Support Agency on July 2, 1991. The Army concurred with the finding and recommendation and stated that the Chief, U.S. Army Europe Contracting Center has stressed the importance of diligent and thorough contract administration and documentation and has scheduled an internal control review of contract files and additional training for all contracting personnel. These actions fully comply with the report recommendations. The complete text of management's comments is included in Part IV.

The courtesies extended to the audit staff are appreciated. If you have any questions on this audit, please contact Mr. James J. McHale, Program Director, at (703) 614-6257 (DSN 224-6257), or Mr. Wayne K. Million, Project Manager, at

(703) 693-0593 (DSN 223-0593). Copies of the final report will be distributed as shown in Appendix D.

Edward R. Jones
Deputy Assistant Inspector General
for Auditing

Enclosure

cc:
Secretary of the Army
Assistant Secretary of the Army (Procurement)

Office of the Inspector General, DoD

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Audit Results. The audit showed that the USAREUR Contracting Center was generally in compliance with applicable laws, regulations, and host nation support agreements. However, the contract administration procedures for administering contracts at the USAREUR Contracting Center needed improvement.

Internal Controls. The internal controls applicable to the contractor selection and award process were effective. However, the internal controls for documentation and surveillance in the contract administration process were not adequate (page 2).

Potential Benefits of Audit. Improved contract file documentation and contract surveillance provide assurance that contracts are being performed in accordance with the requirements and on schedule. There were no monetary benefits identified in this report (Appendix B).

Summary of Recommendations. We recommended that management monitor compliance with contract administration procedures relating to contract surveillance and documentation.

Management Comments. The U.S. Army Contracting Support Agency provided comments on our draft report on July 2, 1991. The Director stated that the Chief, U.S. Army Europe Contracting

Center, has stressed the importance of contract administration and file documentation and has scheduled an internal control review of contract files during July 1991. A complete text of the comments is in Part IV of the report.

Audit Response. We believe the actions taken by the U.S. Army Europe Contracting Center satisfy the intent of the recommendation and consider the issue resolved.

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This report was prepared by the Contract Management Directorate, Office of the Assistant Inspector General for Auditing, DoD. Copies of this report can be obtained from the Information Officer, Audit Planning and Technical Support Directorate, (703) 693-0340 (DSN 223-0340).

PART I - INTRODUCTION

Background

This audit was scheduled as a DoD-wide audit of procurement practices in Europe. The U.S. Army Europe (USAREUR) Contracting Center was selected as the first audit site because it is the largest Army contracting activity in Europe.

The USAREUR Contracting Center in Frankfurt, Germany, is under the cognizance of the U.S. Army Contracting Command Europe, in Heidelberg, Germany. The USAREUR Contracting Center is responsible for the centralized contracting support of U.S. Army Europe Forces and for contract administration services. The USAREUR Contracting Center generally purchases commodities and services that have common or USAREUR-wide application or are of a specialized nature. Purchases for fiscal year 1989 and for the first half of fiscal year 1990 totaled $583.4 million.

The Federal Acquisition Regulation (FAR) and the Defense Federal Acquisition Regulation Supplement (DFARS) provide the basic guidelines used by contracting personnel in awarding and administering Government contracts. The Army Federal Acquisition Regulation (AFAR) and the USAREUR regulations provide additional supplemental guidance. Contracting personnel also use the Armed Services Pricing Manual (ASPM) when applicable. The ASPM is published as guidance for DoD personnel who engage in the analysis and negotiation of contracts. The manual contains instructions on contract pricing and price analysis techniques based on policies and procedures of the FAR and DFARS.

Objectives

The overall audit objectives were to evaluate procedures and practices that acquisition officials used in awarding DoD contracts and to determine whether contractor selection and award and contract administration procedures were in accordance with applicable laws, regulations, and host nation support agreements. The audit also reviewed the adequacy of internal controls applicable to the audit objectives.

Scope

We reviewed the USAREUR Contracting Center's procedures and controls for awarding and administering contracts. The review included an examination of documentation in the contract files and discussions with contracting personnel. We reviewed the statements of work, requests for proposal, determinations, contractor proposals, price negotiation memorandums, contracts, and other documentation and correspondence in the contract files. We used data reported on DD Form 350, "Individual Contracting Action Report (over $25,000)," to identify contracts

for our tests. Contracts under $25,000 were not included in our review. The universe established from the DD Form 350 data listing for FY's 1988 and 1989 and for the first 6 months of FY 1990 (excluding "indirect contracts" - those contracts awarded and administered by the host-nation governments) consisted of 358 contracts valued at $71 million. We stratified the universe into three distinct strata using dollar thresholds as the criteria.

Stratum 1 - Contracts greater than $500,000
Stratum 2 - Contracts greater than $100,000 but less than $500,000
Stratum 3 - Contracts less than $100,000

We randomly selected 26 contracts valued at $19 million. In order to assess the reliability of our DD Form 350 data listing, we obtained a contract listing from the USAREUR Contracting Center to compare with the DD Form 350 listing. We found discrepancies between the two contract reporting systems; 479 contracts valued at $89 million were not reported to the DD Form 350 reporting system. We stratified these 479 contracts using the same strata criteria and randomly selected 6 additional contracts valued at $15 million. We incorporated these six contracts as statistical replacement contracts in our initial sample. In addition, we judgmentally added two other contracts for review based on information provided by a confidential source. Also, one contract from the original sample was dropped because USAREUR Contracting Center personnel could not locate the contract file. Subsequently, we were notified that this contract had been cancelled. The final audit universe consisted of 837 contracts valued at $161 million. We reviewed 27 contracts valued at $35 million. Appendix A contains a list of the contracts in our sample.

This economy and efficiency audit was conducted at the USAREUR Contracting Center from July 1990 through February 1991 in accordance with auditing standards issued by the Comptroller General of the United States, as implemented by the Inspector General, DoD. Accordingly, we included such tests of internal controls as were considered necessary. Activities visited or contacted are listed in Appendix C.

Internal Controls

To determine the adequacy of internal controls at the USAREUR Contracting Center, we evaluated procedures used in processing solicitations, evaluating bids and offers, awarding contracts, and administering contracts. The audit included: the review of internal controls of the procurement system; the review of contract files for compliance with specific regulations (FAR, DFARS, and local guidance); and the interviews of key USAREUR Contracting Center personnel.

The internal control audit objectives for the contractor selection and award process were to determine whether contract actions were documented, justified, authorized, reviewed, and executed by persons having the authority. We found that the internal controls applicable to the contractor selection and award process were deemed to be effective in that no material deficiencies were disclosed by the audit. The USAREUR Contracting Center followed specific guidance, as prescribed by the FAR, the DFARS, and local guidance. In addition, the USAREUR Contracting Center had an effective system of review and approval for each step in the procurement process.

The internal control audit objectives for contract administration were to determine whether contract administration practices were documented, justified, authorized, reviewed, and executed in accordance with applicable regulations and guidance. We found that existing procedures, established by the USAREUR Contracting Center, were not being followed. Specifically, we identified internal control weaknesses involving documentation and surveillance. These internal control weaknesses are discussed in detail in Part II of this report. The recommendation, if implemented, will correct the weaknesses. We did not identify any specific monetary benefits will be realized by implementing the recommendation; however, other benefits are described in Appendix B. Accordingly, a copy of the final report will be provided to the senior officials responsible for internal controls within the Office of the Secretary of the Army.

Prior Audits and Other Reviews

U.S. Army Audit Agency, Report EU-88-315, "Award and Administration of Service Contracts in U.S. Army, Europe and Seventh Army," June 30, 1988, concluded that the contract award and contract administration process needed improvement. Specifically, more emphasis was needed in performing cost and price analyses, soliciting contractors' proposals, monitoring contractor performances, and closing contracts. The report recommended instructing contracting officers on price analysis techniques and issuing guidance to contracting officers with criteria for determining whether adequate price competition existed. The report also recommended that contracting officers: require their representatives to submit, for review and approval, surveillance plans that outline the methods and procedures to be used in monitoring performance; make on-site inspections to evaluate their representatives' performance; and require their representatives to submit periodic evaluation reports. The U.S. Army Contracting Command, Europe, concurred with the recommendations and stated that guidance was issued to implement the recommendations.

PART II - FINDING AND RECOMMENDATION

CONTRACT ADMINISTRATION OPERATING PRACTICES

The U.S. Army Europe Contracting Center's established contract administration procedures and related internal controls were not implemented effectively. Evidence of active contract surveillance was not completely documented or properly maintained in the contract files. Contract administration personnel did not follow the prescribed administration procedures because management did not review performance of these requirements. As a result, ineffective administration practices can adversely affect the Government's position in fulfilling its obligation and in protecting its interest.

DISCUSSION OF DETAIL

Background

The FAR contains the general policies and procedures for administering Government contracts. The regulation states that contract administration ensures the performance of the specific promises or agreements of a contract. To complete this task, the administrative contracting officer (ACO) is responsible for implementing the diverse contract terms and conditions, analyzing costs, and providing contract surveillance. The ACO must monitor and coordinate the administrative efforts to ensure that the Government not only fulfills its obligations, but also takes appropriate action to ensure contractor compliance with contract requirements. In essence, the ACO manages the overall business relationship. The USAREUR Contract Administration Branch Internal Procedures, Branch Policy No. CA-1, implements these regulations and establishes the policies and procedures governing the USAREUR Contracting Center's practices for contract administration.

Contract File Documentation

The ACO has the responsibility of providing adequate documentation. Adequate documentation makes contract administration more systematic; but, even more important, the availability and quality of documentation may be decisive in providing information for reviews, investigations, and furnishing essential facts in the event of litigation. FAR part 4.803 sets forth the basic contract file contents to be maintained in the contract file. The internal control standards define the minimum level of quality acceptable for internal control systems in operation and constitute the criteria against which systems are evaluated. The internal control standard for documentation states that internal control systems and all transactions and other significant events should be clearly documented, and the documentation is to be readily available for examination.

Furthermore, the FAR requires sufficient documentation in the files to constitute a complete history of the transaction for the purpose of providing a complete background as the basis for informed decisions at each step in the contracting process. In accordance with USAREUR Contract Administration Branch Internal Procedures, Branch Policy No. CA-1, ACO's are responsible for documenting and filing all communications regarding contract performance. The policy also requires prompt and regular filing of documents by sections within the contract folder. The sections are preaward, basic contract with modifications, correspondence, delivery orders, and invoices and payment vouchers.

Based on the above requirements, we found that contract files were generally organized in sections as required by FAR and USAREUR Contracting Center policy. However, ACO personnel did not always maintain required, complete, and up-to-date contract documentation in the contract files, such as contractor invoices, payment vouchers, contract administration logs, performance reports, and correspondence.

Contractor invoices. Contractor invoices are used to monitor contract performance and to evaluate whether contractor costs are allowable and within the contract funding limitation. Therefore, it is imperative that ACO's maintain up-to-date and complete copies of contractor invoices. Of the 27 contracts reviewed, only 12 contract files contained copies of contractor invoices.

Payment vouchers. The ACO uses payment voucher records to ensure that payments are made because nonpayment may constitute a breach of contract on the part of the Government. It is also essential for ACO's to obtain up-to-date payment voucher records in order to identify any potential overpayments and to expedite the contract close-out process. Only 10 of the 27 contract files reviewed contained copies of payment vouchers.

Performance reports. Performance reports are used to evaluate the contractor's performance and to determine whether a contract is performed in accordance with the contract requirements and on schedule. In addition, it is important for the ACO to obtain and review performance reports regularly in order to address specific contract problems and to identify any anticipated problems. Contracting personnel did not obtain performance reports on a regular basis. Only 5 of the 27 contract files reviewed included contractor performance reports.

Contract administration log. The USAREUR Contract Administration Branch Internal Procedures, Branch Policy No. CA-1 states that a contract administrator shall maintain a log for tracking significant pending actions. When maintained, the administration log can provide a quick synopsis of what has transpired throughout the administration process or highlight any

significant actions that may be anticipated for the remainder of the contract. Only 7 of the 27 contract files reviewed contained a contract administration log, and only 2 of the 7 administration logs were complete.

Correspondence. The USAREUR Contract Administration Branch Policy Internal Procedures, Branch Policy No. CA-1 states that all communications (written or verbal) should be documented in the contract file. Only 9 of the 27 contract files reviewed showed any evidence that the contract administrator conducted regular communications with contracting officer representatives (COR's).

Contract Surveillance

Contract surveillance is necessary to determine whether a contract is performed in accordance with the requirements and on schedule. It is imperative that ACO's have an effective system in place to provide active surveillance of contract progress. Without active surveillance, the extent of contract problems is not known and corrective action cannot be taken. The surveillance process involves the application of numerous techniques and procedures for determining contractor compliance with the contract terms. Usually, the surveillance is accomplished by verbal contact and receipt and analysis of documents or correspondence on the contract status, completion, or any other pertinent data. In addition, the ACO should periodically visit sites to further verify actual performance of the contract and assess any potential problems. Although contract administration may include other personnel, such as administrative support personnel, contract specialists, and COR's, the responsibility ultimately remains with the ACO. The ACO also monitors the efforts of the contract team to ensure that the contract is performed in accordance with the contract requirements.

The FAR states that the Government will maintain surveillance of contractor performance, as necessary, to protect its interest. The regulation also states that when a contracting office retains a contract for administration, the ACO shall determine the extent of the surveillance. USAREUR Contract Administration Branch Policy Internal Procedures, Branch Policy No. CA-1 provides the implementing guidance for the use of administrative contracting personnel. Although the policy states that the administrator's time is usually consumed by "putting out fires" and responding to unexpected communications, the essential nature of the job should revolve around a much more active than reactive posture. To accomplish this task, the contracting officer usually appoints a COR whose primary responsibility is to monitor the performance. However, the policy also states that surveillance remains the key responsibility of the contract administrator, despite involving multiple subordinate administrative personnel. Specifically, the

policy requires that the contract administrator conduct regular communications, perform site visits, and analyze contract file documentation.

Regular communications. The USAREUR Contract Administration Branch Policy Internal Procedures, Branch Policy No. CA-1 states that regular communications, either verbal or written, should be made with each COR at least every 60 days to determine if the COR's are fulfilling their duties and if any problems are being experienced, which may require action by the contracting officer. In addition, the policy states that the contract files should be documented to reflect these communications. Based on the contract file documentation, only 9 of the 27 contract files reviewed showed that administrative contracting personnel conducted regular communications with COR's.

Field visits. The USAREUR Contract Administration Branch Policy Internal Procedures, Branch Policy No. CA-1 states that contract administrators should visit at least one COR on-site per month to review COR actions and files and to assist in resolving problems. We found no evidence in the contract files indicating contract administrators performed field visits. In addition, we were told that lack of personnel resources and workload requirements prevented the necessary periodic visits.

Documentation. It is important that administrative documentation be complete and adequately maintained in the contract file. Additionally, it is equally important that this information be used in the surveillance process. The USAREUR Contract Administration Branch Policy states that part of surveillance must consist of monitoring payments made versus contract prices, performance, or deliveries. For tracking this information, the policy recommends incorporating, as part of the contract file, a payment log and spread sheet. The administrator must maintain complete and up-to-date information in order to perform an analysis. An analysis will help determine whether a contract will be performed in accordance with the requirements and on schedule. Only 5 of the 27 contracts reviewed contained an established system (a payment log or spread sheet) to track payments, contract funding, and invoices.

RECOMMENDATION FOR CORRECTIVE ACTION

We recommend that the Chief, U.S. Army Europe Contracting Center, establish a system to periodically review procedures that pertain to contract surveillance and documentation and take necessary corrective actions when deficiencies are found.

MANAGEMENT COMMENTS

The Chief of U.S. Army Europe Contracting Center concurred and stated that an internal control review of contract files was scheduled during July 1991. Furthermore, they will conduct special training on contract administration, management, documentation, and COR surveillance. A complete text of the comments is in Part IV of the report.

PART III - ADDITIONAL INFORMATION

APPENDIX A - Listing of Sample Contracts Reviewed at U.S. Army Europe Contracting Center, Frankfurt, Germany

APPENDIX B - Summary of Potential Benefits Resulting from Audit

APPENDIX C - Activities Visited or Contacted

APPENDIX D - Report Distribution

APPENDIX A: LISTING OF SAMPLE CONTRACTS REVIEWED AT U.S. ARMY EUROPE CONTRACTING CENTER, FRANKFURT, GERMANY

Contract Number	Contractor	Dollar Amount
DAJA37-88-C-C079	Edelhoff Staedtereinigung	$ 703,377
DAJA37-89-D-0025	SKE	$ 5,887,971
DAJA37-88-D-0100	Printz Reinigung GmbH	$ 2,200,126
DAJA37-89-C-0205	Arbau-Klaus GmbH & Co	$ 1,461,453
DAJA37-89-C-0145	BWB	$ 734,863
DAJA37-88-C-0361	PAE GmbH	$ 2,883,572
DAJA37-88-C-0140	Hans-Guenther Grubert GmbH	$ 649,777
DAJA37-87-G-6527	Schlafwagen and Speisewagen GmbH	$13,636,408
DAJA37-88-C-0030	Trenton Technical Services Ltd.	$ 1,001,319
DAJA37-90-C-0002	Abbott GmbH	$ 147,810
DAJA37-88-C-0143	Gabelstapler GmbH & Co	$ 376,893
DAJA37-89-D-0089	Nordbayerische Altvater GmbH	$ 569,408
DAJA37-90-C-5155	Karl Kraemer GmbH & Co	$ 162,463
DAJA37-89-F-0198	Digital Equipment GmbH	$ 153,980
DAJA37-90-F-0037	D.O.E./Oak Ridge Operations	$ 295,000
DAJA37-88-D-0087	Waescherei-Chem. Reinigung	$ 510,656
DAJA37-89-D-0134	Brown Boveri York GmbH	$ 1,715,840
DAJA37-89-D-0070	Sued-Muell Transport	$ 335,554
DAJA37-90-F-0221	Heinrich Benker GmbH	$ 299,896
DAJA37-89-F-0182	IBM Corp. - European Operations	$ 129,482
DAJA37-89-C-0172	Spengler Kranarbeiten GmbH	$ 43,062
DAJA37-89-C-0157	Gabelstapler GmbH	$ 89,475
DAJA37-89-F-0283	SMS Data Products Group GmbH	$ 48,789
DAJA37-90-C-0089	Hydromec M.A. Hoepf GmbH	$ 75,692
DAJA37-90-C-5010	Geroh GmbH	$ 46,446
DAJA37-89-C-0214	Toledo Werk GmbH	$ 811,441
DAJA37-90-D-0089	Picker International GmbH	$ 209,389

APPENDIX B: SUMMARY OF POTENTIAL BENEFITS RESULTING FROM AUDIT

Recommendation Reference	Description of Benefit	Type of Benefit
1.	Economy and Efficiency. Active contract surveillance and properly documented contract files establish a more effective contract administration practice, which will ensure that contracts are performed in accordance with the requirements and on schedule.	Nonmonetary

APPENDIX C: ACTIVITIES VISITED OR CONTACTED

Department of the Army

U.S. Army Contracting Command, Europe, Heidelberg, Germany
U.S. Army Europe Contracting Command, Frankfurt, Germany
U.S. Army Europe Office of the Inspector General, Heidelberg, Germany

APPENDIX D: FINAL REPORT DISTRIBUTION

Office of the Secretary of Defense

Assistant Secretary of Defense (Production and Logistics)
Comptroller of the Department of Defense
Director of Defense Procurement

Department of the Army

Secretary of the Army
Assistant Secretary of the Army (Financial Management)
Assistant Secretary of the Army (Research, Development and Acquisition)
Commander In Chief, U.S. Army, Europe
Commander, U.S. Army Contracting Command, Europe

Other Defense Activities

U.S. European Command
DoD Inspector General Regional Office Europe

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 Governmental Operations
- House Subcommittee on Legislation and National Security, Committee on Government Operations

PART IV - MANAGEMENT COMMENTS

Director, U.S. Army Contracting Support Agency Comments

DIRECTOR, U.S. ARMY CONTRACTING SUPPORT AGENCY COMMENTS

DEPARTMENT OF THE ARMY
OFFICE OF THE ASSISTANT SECRETARY
U S ARMY CONTRACTING SUPPORT AGENCY
WASHINGTON DC 20310 0103

REPLY TO
ATTENTION OF

SFRD-KP

02 JUL 1991

MEMORANDUM FOR THE INSPECTOR GENERAL, DEPARTMENT OF DEFENSE, ATTN: ASSISTANT INSPECTOR GENERAL FOR AUDITING, 400 ARMY NAVY DRIVE, ARLINGTON, VIRGINIA 22202-2884

SUBJECT: Draft Audit Report on DOD Contracting in Europe, U.S. Army, Europe Contracting Center, Frankfurt, Germany (Project OCD-0067.00)

1. Reference is made to your May 8, 1991, memorandum, subject as above, furnishing subject draft report for review and comment.

2. This Agency agrees with the comments of the USAREUR Contracting Center, Europe/U.S. Army Contracting Command, Europe, which are enclosed and furnishes them as the basis for our concurrence with the report's finding and recommendation. Although we concur with the internal control weakness identified in the report, it must be recognized that no internal control system can guarantee that 100 percent of contract administration actions and documents are contained in contract files 100 percent of the time.

3. SFRD-KP point of contact for this action is Rachel Lilley, (703) 756-7572.

FOR THE DIRECTOR, U.S. ARMY CONTRACTING SUPPORT AGENCY:

Enclosure

for Kenneth J. Loehr
J. BRUCE KING
Deputy Director
U.S. Army Contracting
Support Agency

CF:
DAIG-PAC (ATTN: Ms. Flanagan)

KENNETH J. LOEHR
Acting Deputy Director
U.S. Army Contracting
Support Agency

USAREUR CONTRACTING CENTER, FRANKFURT
U.S. ARMY CONTRACTING COMMAND, EUROPE

COMMAND REPLY

DODIG DRAFT AUDIT REPORT, DOD CONTRACTING IN EUROPE

FINDING: The U.S. Army Europe Contracting Center's established contract administration procedures and related internal controls were not implemented effectively. Evidence of active contract surveillance was not completely documented or properly maintained in the contract files. Contract administration personnel did not follow the prescribed administration procedures because management did not review performance of these requirements. As a result, ineffective administration practices can adversely affect the Government's position in fulfilling its obligation and protecting its interest.

COMMAND RESPONSE TO THE FINDING: Concur with comments.

1. In reviewing the 27 Contract Administration Division (CAD) contracts, DODIG made an overall assumption that same information and/or data should be documented in all contracts without regard to types of contracts such as, supply viz. services, complex viz. non-complex, e.g., most (non-complex) supply/service contracts: (i) do not require contractor's performance reports, a payment log or spreadsheet inasmuch as those contracts involve a single delivery/service and payment; (ii) require the designation of a point of contact (POC) rather than a COR; and (iii) the suspense and pending action logs are, generally, maintained on the contract administrator's desk for tracking day-to-day workload rather than filing in the contract folder after every and each follow-up action. We are of the opinion that a number of the above concerns could have been resolved had the inspectors discussed them with the contract administrators during their review.

2. The SOP available at the Contracting Center describes ideal proactive contract administration beyond those set forth in the FAR and its DOD&DA Supplements. Admittedly, there were shortfalls in meeting the SOP standards but, nonetheless, ideal standards are, generally, sought only as goals. We believe there should be acceptable tolerances for not attaining (100% of) the SOP standards..

COMMAND CORRECTIVE ACTION

AUDIT RECOMMENDATION: Recommend that the Chief, U.S. Army Contracting Center, establish a system to periodically review procedures that pertain to contract surveillance and documentation and take necessary corrective actions when deficiencies are found.

COMMAND REPLY: Concur. Pursuant to the DODIG report, the Chief U.S. Army Europe Contracting Center met with all CAD personnel, 5 June 1991. He stressed the importance of diligent and thorough contract administration and documentation. He established a program for and scheduled during July 1991, the next semiannual, internal review of contract files, to conduct a special training on contract administration, management, documentation, and COR surveillance (as set forth in the local SOP).

The Compliance Division, office of the PARC, will perform a PMR in August 1991 and make the IG comments as well as the corrective actions taken, by the Chief of U.S. Army Contracting Center, items of special interest to insure compliance with DOD/DA objectives.

2

LIST OF AUDIT TEAM MEMBERS

David K. Steensma, Director, Contract Management Directorate
Paul J. Granetto, Program Director
James J. McHale, Program Director
Wayne K. Million, Project Manager
Andrew O. Nickle, Team Leader
Deborah. L Culp, Auditor
Jeffery A. Lee, Auditor
Catherine M. Schneiter, Auditor
Robert A. Harris, Auditor
Kevin E. Richardson, Auditor