

Audit



Report

OFFICE OF THE INSPECTOR GENERAL

PROCUREMENT ACTIVITIES IN GERMANY

Report No. 93-158

August 31, 1993

Department of Defense

Acronyms

BPA	Blanket Purchase Agreement
DO	Delivery Order
LN	Local National
PO	Purchase Order
RCO	Regional Contracting Office
UCC	U.S. Army, Europe Contracting Center
USAFE	U.S. Air Forces in Europe
USAREUR	U.S. Army, Europe



INSPECTOR GENERAL
DEPARTMENT OF DEFENSE
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August 31, 1993

MEMORANDUM FOR ASSISTANT SECRETARY OF DEFENSE FOR
PERSONNEL AND READINESS
COMPTROLLER OF THE DEPARTMENT OF DEFENSE
ASSISTANT SECRETARY OF THE AIR FORCE
(FINANCIAL MANAGEMENT AND COMPTROLLER)
INSPECTOR GENERAL, DEPARTMENT OF THE ARMY

SUBJECT: Procurement Activities in Germany (Report No. 93-158)

We are providing this final report for your information and use. The report addresses contracting facilities in Germany. Comments on a draft of this report were considered in preparing the final report.

DoD Directive 7650.3 requires that all audit recommendations be resolved promptly. As a result of management comments, we revised recommendations addressed to the Assistant Secretary of Defense for Personnel and Readiness, the Army, and the Air Force. We also deleted some draft report recommendations based on comments from the Army. Therefore, we request that the addressees provide final comments on the unresolved recommendations by November 1, 1993. See the "Response Requirements per Recommendation" section at the end of the finding for unresolved recommendations and the specific requirements for comments.

Please contact Mr. Joseph P. Doyle, Program Director, at (703) 692-3218 (DSN 222-3218) or Ms. Deborah L. Culp, Project Manager, at (703) 692-3343 (DSN 222-3343) if you have any questions on this audit. We appreciate the courtesies extended to the audit staff. The planned distribution of this report is listed in Appendix G. The audit team members are listed inside the back cover.

A handwritten signature in black ink that reads "Robert J. Lieberman".

Robert J. Lieberman
Assistant Inspector General
for Auditing

Office of the Inspector General, DoD

Report No. 93-158
(Project No. 2CK-0066)

August 31, 1993

PROCUREMENT ACTIVITIES IN GERMANY

EXECUTIVE SUMMARY

Introduction. The Army and the Air Force provide contracting support for troops in Europe. The U.S. Army Contracting Command, Europe, which provides contracting support for Army forces throughout Europe, plans to reduce to seven contracting offices and one suboffice in Germany by the end of FY 1993. In FY 1990, the U.S. Army Contracting Command, Europe had nine contracting offices and six suboffices in Germany. The U.S. Air Forces in Europe, which provides contracting support for its geographical area, had five contracting offices and two suboffices in Germany in FY 1990. As of January 1993, the U.S. Air Forces in Europe had six contracting offices in Germany; three of which are designated for closure by the end of FY 1993.

Objective. The audit objective was to review work load and staffing for Army and Air Force procurement activities in Germany.

Audit Results. The audit disclosed that there were too many contracting offices in Germany and that plans were inadequate to achieve the most efficient number and placement of contracting resources. As a result, contracting efforts were duplicated and the most cost-effective method for procuring services was not obtained. In addition, internal control weaknesses may occur if reductions in contracting personnel are not adequately planned and implemented.

Internal Controls. We did not review internal controls as part of this audit; however, internal control weaknesses found in prior audits were considered in drawing our conclusions.

Potential Benefits of Audit. The recommendations if implemented will prevent potential internal control weaknesses from occurring. Consolidation of contracting offices should result in monetary benefits of about \$20 million over a 5-year period from a reduction in staff. In addition, an undetermined amount of overhead costs will be reduced (Appendix E). A more precise estimate of the monetary benefits can be made when a U.S. Army, Europe drawdown plan is approved.

Summary of Recommendations. We recommended that the Assistant Secretary of Defense for Personnel and Readiness perform a manpower and budget review to assess the potential for consolidation of U.S. Army, Europe and U.S. Air Forces in Europe contracting staffs in Germany. We also recommended that the results of the manpower and budget review be implemented. Additionally, we recommended that the Comptroller of the Department of Defense initiate adjustments during the budget review process to realign and reduce work years as appropriate to implement the reductions and consolidations of contracting offices in Germany. We also recommended that the number of Army contracting offices and staff be reduced and that the staff at Headquarters, U.S. Army Contracting Command be reduced or reassigned. Finally, we recommended that the Army provide contracting support for Rhein Main Air Base.

Management Comments. At the request of the Army, the Army comments were not included in the final report due to the sensitivity of the European drawdown planning. The Army generally concurred in the recommendations. The Army comments were considered in preparing the final report. However, the details of the Army comments will not be presented in the final report.

The Office of the Assistant Secretary of Defense for Personnel and Readiness and the Air Force generally concurred with the recommendations to perform and implement the results of a manpower and budget review to assess the potential for consolidation of Army and Air Force contracting staffs in Germany. The Comptroller of the Department of Defense did not comment on the recommendation to initiate adjustments during the budget review process to realign and reduce work years as appropriate. Headquarters, U.S. European Command and the Air Force stated that adjustments should be made after the proposed manpower and budget review.

The Office of the Assistant Secretary of Defense for Personnel and Readiness did not concur with the recommendation to reduce or consolidate Army contracting offices and staff and stated that these decisions should wait until the results of the manpower and budget review were known.

The Office of the Assistant Secretary of Defense for Personnel and Readiness and the Air Force did not concur with the recommendation for the Army to provide contract support for Rhein Main Air Base. They stated that such a decision should wait until the results of the manpower and budget review were known.

Audit Response. We revised the recommendations to perform and implement a manpower and budget review to clarify the intent and to have other functional components involved in the review. In response to the Army's comments, we revised the recommendation to reduce the number of Army contracting offices in Germany. We deleted report Recommendations 4.b. and 4.c., which addressed the specific U.S. Army Contracting Command offices to be consolidated. Report Recommendations 4.d. and 4.e. were renumbered to 4.b. and 4.c., respectively. We still consider the recommendation for the Air Force to request the Army to provide contracting support for Rhein Main Air Base and the associated monetary benefits to be valid. A discussion of the responsiveness of management comments is in Part II of this report. The complete text of management comments (excluding Army) is in Part IV.

Comments are requested from the Assistant Secretary of Defense for Personnel and Readiness, the Comptroller of the Department of Defense, the Army, and the Air Force by November 1, 1993. If the other activities responding to this report need to see the Army comments to formulate their comments, they should contact the Office of the Deputy Assistant Secretary of the Army (Procurement).

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This report was prepared by the Contract Management Directorate, Office of the Assistant Inspector General for Auditing, Department of Defense. Copies of the report can be obtained from the Secondary Reports Distribution Unit, Audit Planning and Technical Support Directorate (703) 614-6303 (DSN 224-6303).

Part I - Introduction

Background

A reduced threat to U.S. interests in Europe has resulted in a reduced Defense presence. U.S. troop strength in Europe has been reduced by 54 percent since FY 1990, decreasing from about 323,000 in FY 1990 to about 150,000 by the end of FY 1993. During this same period, 683 of 1,402 DoD sites in Europe have been or will be reduced or closed. DoD officials expect to further reduce U.S. troop strength in Europe to about 100,000.

The U.S. Army Contracting Command, Europe (Army Contracting Command) has 13 contracting offices providing contracting support for U.S. Army, Europe (USAREUR) forces stationed primarily in Germany, Italy, Belgium, England, and the Netherlands. The Army Contracting Command also provides contracting support for host-nation support agreements and to non-USAREUR activities. Non-USAREUR activities include U.S. Army Russian Institute Foreign Language Training School, DoD Dependents Schools, and Armed Forces Recreation Centers. This contracting support is provided to more than 65 customers. The Army Contracting Command plans to reduce the number of contracting offices in Europe to nine and suboffices to three by the end of FY 1993.

The U.S. Air Forces in Europe (USAFE) has 21 contracting offices in Europe primarily supporting U.S. Air Force personnel stationed in Germany, Italy, Turkey, the Netherlands, Spain, and England. USAFE also provides contracting support to other than Air Force activities. As of January 1993, 6 of the 21 offices were officially designated for closure by the end of FY 1994.

Objective

The audit objective was to review work load and staffing for Army and Air Force procurement activities in Germany.

Scope

We reviewed the workload and staffing data at six Army regional contracting offices (RCOs) and at one Air Force contracting office in Germany. We also reviewed contract documentation to verify the FY 1992 workload data at each contracting office. The computerized data from the Standard Army Automated Contracting System and the Air Force's Base Contracting Automated System were used to verify the workload data. The computerized data were accurate for comparing work load and making recommendations. Workload data were not reviewed at the U.S. Army, Europe Contracting Center (UCC) or at the offices designated to close or merge in FY 1993. We reviewed staffing levels at

Headquarters, Army Contracting Command and Directorate of Contracting, USAFE. We interviewed contracting personnel to determine how the contracting offices operate. We reviewed the USAREUR FY 1993 plan for troop reduction in Germany; however, we did not review the USAFE plan for troop reduction because of the small number of Air Force contracting offices in Germany.

Internal Controls. Internal controls were not reviewed as part of this audit; however, we did consider internal control weaknesses found in prior audits in drawing our conclusions.

Audit Period, Locations, and Standards. This economy and efficiency audit was made from September 1992 to April 1993 in accordance with auditing standards issued by the Comptroller General of the United States as implemented by the Inspector General, DoD. We included such tests of internal controls as were considered necessary. Appendix F lists the activities visited or contacted during the audit.

Prior Audits and Other Reviews

No audits of staffing and work load of contracting offices in Germany were conducted in the last 5 years. However, six prior IG, DoD, audits of contracting activities in Europe disclosed internal control weaknesses. These weaknesses included problems with the lack of separation of duties; inadequate supervision; inadequate execution and documentation of transactions and events; and noncompliance with regulatory requirements for the award, administration, and completion of contracts. Appendix A lists these reports.

Other Matters of Interest

In addition to the appropriated fund contracting performed by Army and Air Force contracting offices, other DoD contracting activities are located in Germany. The DoD Dependents Schools will perform its own contracting in the future. The U.S. Army Corps of Engineers, Frankfurt, has a contracting staff of 14. Defense Personnel Support Center, Subsistence, which buys highly perishable goods such as produce and meats, is located at Pirmasens and has a contracting staff of about 76. Also, the Defense Personnel Support Center, Medical, collocated at Pirmasens, has a test program with a staff of five to provide contracting support for the medical needs of the European Theater.

Training and oversight for nonappropriated fund contracting is provided by USAREUR and USAFE contracting. About 13 USAREUR nonappropriated fund contracting offices operate at various locations in Germany with a staff of about 87 people. USAFE also performs nonappropriated fund contracting at 10 locations throughout Germany with about 10 people. In addition, the

Introduction

Stars and Stripes has a small contracting office of six people in Germany. The Armed Forces Recreation Center at Garmisch performs its own nonappropriated fund contracting while the appropriated fund contracting is performed by RCO Fuerth.

Part II - Finding and Recommendations

Contracting Offices in Germany

Too many contracting offices are located in Germany and current realignment plans will not achieve the most efficient number and placement of contracting resources. The proximity and excessive number of contracting offices in Germany occurred because USAREUR has not effectively planned for reductions, and neither USAREUR nor USAFE effectively pursued joint consolidations of contracting commands and offices in keeping with the overall troop reductions. As a result, contracting efforts were duplicated, and the most cost-effective method for procuring services was not obtained. Also, internal control weaknesses may occur if reductions in contracting personnel are not adequately planned and implemented. Potential monetary benefits of about \$20 million should result if contracting offices are merged.

Background

Army. The Army Contracting Command's structure in Germany is currently based on one RCO to support each area support group as well as other non-USAREUR customers in its geographical area of responsibility. Contracting support consists mainly of base support for supplies, services, and minor construction for the local military community. In addition to the RCOs, UCC, a large contracting office located in Frankfurt, performs unique and complex contracting for all USAREUR activities regardless of geographic location.

In FY 1990, the Army Contracting Command had eight RCOs, one contracting center, and six suboffices in Germany. The Army Contracting Command plans to have six RCOs, one contracting center, and one suboffice in Germany by the end of FY 1993. As of January 1993, USAREUR projected its troop strength will be reduced to approximately 85,000 in Germany by the end of the fiscal year, a 57-percent reduction from FY 1990.

Air Force. Current USAFE structure is based on an objective wing structure. The wing is self-sustaining in support of the wing commander. USAFE has decentralized for greater mobility and flexibility.

In FY 1990, USAFE had five contracting offices and two suboffices in Germany. In FY 1993, Air Force has six contracting offices and no suboffices. However, three of the six contracting offices are closing by the end of the fiscal year. As of January 1993, USAFE had about 14,000 troops in Germany, a 63-percent reduction from FY 1990.

Local Nationals. Local nationals (LNs) make up a large portion of the contracting staff in Germany. The presence of numerous nationalities presents unique challenges. Many contractors, inspectors, and contracting officers' representatives speak limited English. Local customs and practices differ from nationality to nationality and from region to region.

International agreements and host-country laws and policies may supersede or supplement U.S. regulations, laws, and policies. International agreements require the use of LNs working as U.S. Government employees. LNs have different employee benefits, work schedules, holidays, and pay structures than U.S. civilian employees. LNs have basically unlimited sick leave with a doctor's excuse. During FY 1992, 8 of 40 LNs at one RCO averaged more than 500 hours of sick leave. One employee used 866 hours of sick leave, approximately 22 weeks. LNs are also provided 30 days annual leave and 15 paid holidays, regardless of tenure. LNs are required to work only 38.5 hours per week and receive 25 days per parent for family leave. LNs receive 13 months pay for 12 months of work by getting a 2-week bonus in the Summer and a 2-week bonus at Christmas. LNs also receive longevity bonuses.

Army Contracting Command Activities

The Army Contracting Command had not effectively planned for the consolidation of contracting offices and staff reductions in Europe. We believe the number of contracting offices can be reduced by merging three RCOs into other existing contracting offices. Furthermore, staff reductions at Headquarters, Army Contracting Command have not been proportionate to staff reductions at the contracting offices.

Contracting Offices Work Load. RCOs at Bad Kreuznach, Hanau, and Wuerzburg should merge with other contracting offices because of their small work loads and their proximity to larger contracting offices. The FY 1992 combined work load for RCOs Bad Kreuznach, Hanau, and Wuerzburg was about 24 percent of the total work load for UCC and the six RCOs in Germany. See Appendix B for further details of the Army Contracting Command's FY 1992 procurement actions and dollars in Germany.

Contracting Offices in Germany

Figure 1. shows FY 1992 procurement actions, excluding external actions¹ and administrative modifications,² for the six RCOs reviewed. The RCOs use purchase orders (POs), blanket purchase agreements (BPAs), delivery orders (DOs), General Services Administration schedules, and contracts.

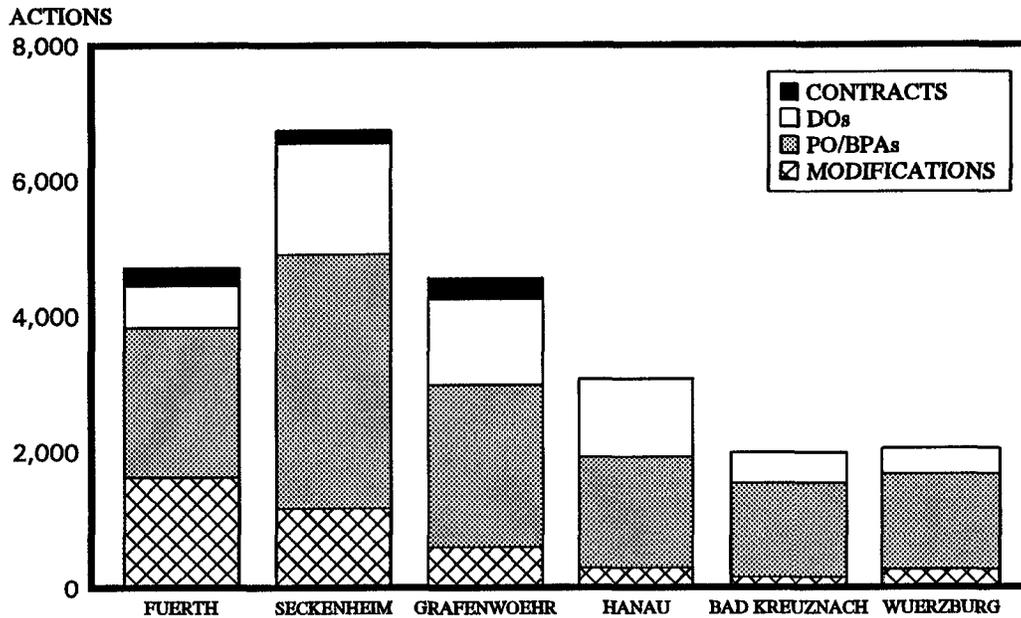


Figure 1. Number of FY 1992 Procurement Actions for RCOs Reviewed

Since FY 1990, suboffices at Bad Kreuznach, Hanau, and Wuerzburg were upgraded to RCOs. However, the three RCOs still rely on contracting support from other RCOs to support their respective area support groups and customers. For example, the three RCOs did not award utility contracts or have authority to award contracts of more than \$25,000 in FY 1992. RCO Wuerzburg awarded only four contracts that were valued at a total of about \$208,000 in FY 1992. RCO Hanau awarded 13 contracts in FY 1992 for expedited requirements. Of the three RCOs, only Bad Kreuznach awarded contracts of more than \$25,000 in FY 1993.

¹Actions, such as orders and calls, placed by non-contracting office field activities.

²Modifications with no dollar value.

RCOs Bad Kreuznach, Hanau, and Wuerzburg work load only made up about 6 percent of the total dollar value for the seven contracting offices in Appendix B. Figure 2. shows FY 1992 contracting dollars, excluding external actions, for the six RCOs reviewed.

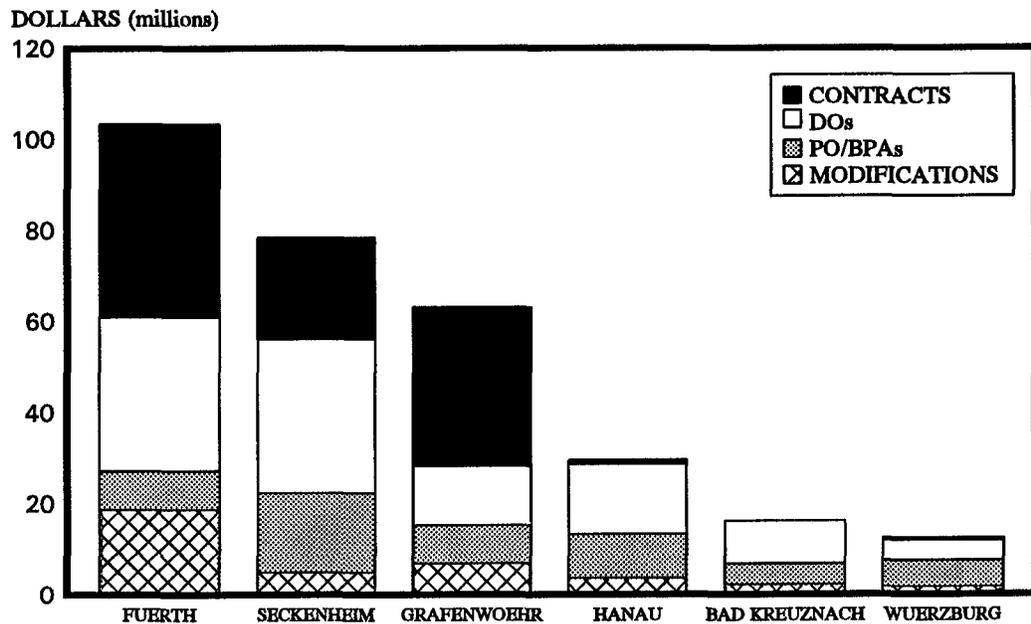


Figure 2. Value of FY 1992 Procurement Actions for RCOs Reviewed

We believe the three RCOs, located about 25 to 100 miles from larger contracting offices, can be merged into other contracting offices without significantly affecting troop support. RCOs Bad Kreuznach and Hanau are close to UCC. Also, RCO Wuerzburg is close to RCO Fuerth and UCC. See Appendix C for a map of contracting offices in Germany.

Army Contracting Command Activities Staffing. The Army Contracting Command's staff has decreased at a slower rate than USAREUR troop reductions. Although the Army Contracting Command is in a reactive mode to troop reductions, the number of contracting personnel reductions lag behind the troop reductions. Contracting personnel are needed to provide contract support for the withdrawal of troops. For the remaining troops, services that were previously done in-house will be contracted out. For example, guard services, transportation, and grounds maintenance frequently have to be contracted out to support the remaining troops. Headquarters, Army Contracting Command stated that a 6-to 9-month lag factor exists for the closure of installations in Germany. Army contracting offices in Germany reduced authorized staff from 676 in FY 1990 to 347 in FY 1993. This reduction was about 49 percent from

Contracting Offices in Germany

FY 1990. However, about 72 persons transferred from UCC to Defense Contract Management Command International because UCC's contract administration function was partially transferred. Therefore, the reduction in Army Contracting Command staff has been about 38 percent compared to a 57-percent reduction in USAREUR troops.

Army contracting offices are staffed by LNs, Department of the Army civilians, military, and military family members. About two-thirds of the employees at the contracting offices are LNs. The high percentage of LNs impedes relocation and reassignment as discussed later in this report.

Figure 3. shows the changes in staffing since FY 1990 for Headquarters, Army Contracting Command; for UCC; and for the six RCOs reviewed during the audit.

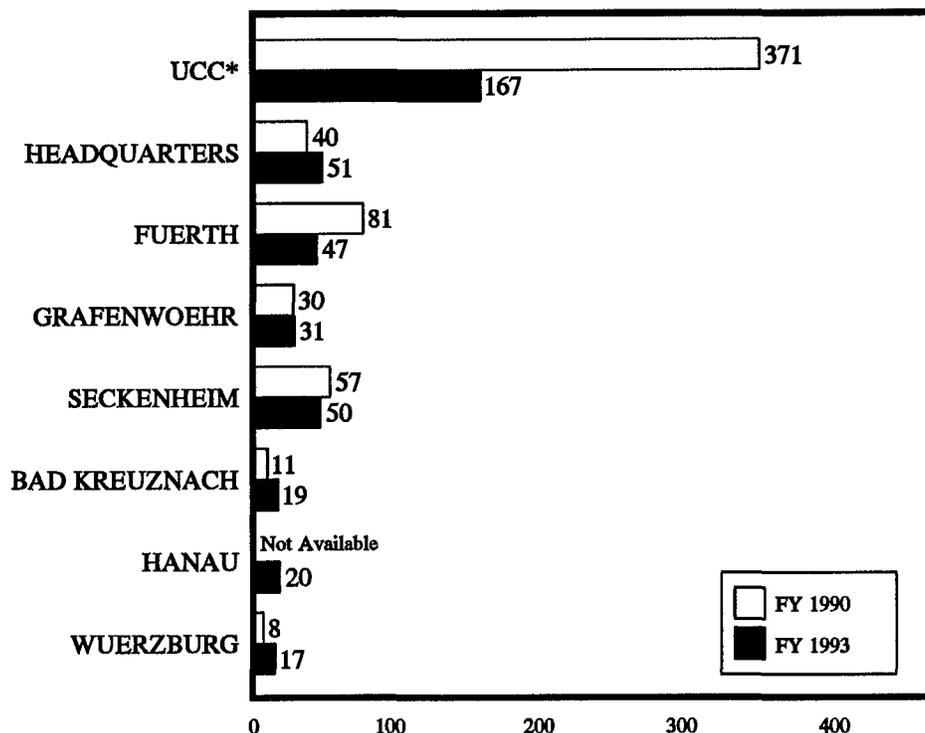


Figure 3. Authorized Staffing FY 1990 versus FY 1993

*UCC includes staffing at RCO Frankfurt.

The Headquarters, Army Contracting Command did not make reductions in its staff proportionately to reductions in staff taken at the contracting offices. In contrast, the staffing at Headquarters, Army Contracting Command increased from 40 in FY 1990 to 66 in FY 1992. As of January 1993, the Headquarters,

Army Contracting Command, which is larger than any contracting office staff except UCC, had a staff of 51 people. At the same time, the Air Force has reduced its headquarters by at least 41 percent. The USAFE Directorate of Contracting had a staff of 14 as of January 1993 compared to its October 1991 staff of 24.

Headquarters, Army Contracting Command is responsible for compliance reviews, policy, resource management, and contract operations and serves as both a USAREUR staff element and a command headquarters. Headquarters, Army Contracting Command does not perform contracting. At Headquarters, Army Contracting Command more than 95 percent of the staff is Department of the Army civilians, military and military family members. The lack of LNs at Headquarters provides greater flexibility for reassigning or relocating Headquarters staff to UCC and the RCOs. In our opinion, Headquarters, Army Contracting Command staff would be put to better use working at the RCOs and UCC.

RCOs Bad Kreuznach, Hanau, and Wuerzburg increased in staff while other RCOs decreased or remained consistent. The staffs increased because the three offices were upgraded from suboffices to RCOs since FY 1990. RCOs Bad Kreuznach and Wuerzburg almost doubled in authorized staffing since FY 1990. The Army Contracting Command could not provide staffing information for RCO Hanau for FY 1990.

Air Force Contracting Activities in Germany

The Air Force has taken significant steps to reduce the number of contracting offices and staff in Germany. However, we believe the Air Force can further reduce its contracting offices in Germany by having the Army UCC provide contracting support for Rhein Main Air Base. In early FY 1993, the Air Force had the Directorate of Contracting and six contracting offices located in Germany. Three of the six contracting offices are scheduled to be closed by the end of FY 1993.

The following table shows the number and value of actions and the staffing levels for FY 1992 Air Force contracting offices in Germany that will be open at the end of FY 1993.

Contracting Offices in Germany

Air Force Work Load and Staffing in Germany

	<u>Bitburg</u>	<u>Rhein Main</u>	<u>ROB*</u>
Total Actions	8,736	5,651	23,094
Total Dollars (thousands)	\$23,896	\$25,623	\$68,973
Year End Staffing	34	22	111

*ROB - USAFE Contracting Center at Rhine Ordnance Barracks

The Army UCC is capable of providing the required contracting support for Rhein Main Air Base because before April 1992, RCO Frankfurt awarded contracts greater than \$50,000 for Rhein Main Air Base. Both UCC and Rhein Main Air Base are located in the greater Frankfurt area. Rhein Main Air Base transferred from Military Airlift Command to USAFE in April 1992 under the Air Force's new objective wing structure. As a result, the Rhein Main Air Base contracting office changed from a small service office to a full service office. The contracting authority at the Rhein Main Air Base contracting office was then increased from \$50,000 to an unlimited amount.

Air Force contracting offices are staffed with a higher percentage of military personnel than Army contracting offices. For FY 1993, approximately 40 percent of staffing for USAFE contracting is military personnel compared to the less than 3 percent of military personnel for Army contracting. The higher percent of military personnel allows greater flexibility in realigning offices and greater mobility in sending contracting personnel with troop deployments. USAFE officials stated that among the first to be deployed for missions such as the Gulf War would be contracting personnel. We believe Air Force military personnel from the Rhein Main Air Base contracting office needed for potential deployments could be assigned to UCC. Furthermore, the Army states that it can provide contracting support for the Rhein Main Air Base.

DoD Planning in Germany

The Army and Air Force have not made joint plans for consolidating contract functions or commands. The present concept for contract office locations worked well when troop strength numbers were larger. However, with the decreasing number of troops in Germany, contracting offices will have to increase their geographic responsibility and provide contracting support for all DoD functions within their geographic area. As troop reductions continue, the number of contracting personnel will continue to decrease.

Inter-Service Contracting. Inter-Service contracting support worked in the past. Before April 1992, UCC provided contracting for actions of more than \$50,000 for Rhein Main Air Base. At the time of audit, about 40 percent of the USAFE Contracting Center work load at Rhine Ordnance Barracks was in support of USAREUR troops in the Kaiserslautern area. In addition, a joint DoD effort called the Remedies and Performance in Contracting committee presents and discusses contracting issues in Europe.

Proximity. Contracting offices in Germany within a reasonable distance of other contracting offices can be consolidated. The Rhein Main Air Base contracting office is located in the Frankfurt area near the large Army contracting office, UCC. Both RCO Hanau and RCO Bad Kreuznach are near UCC. RCO Wuerzburg is close to both RCO Fuerth and UCC.

Reductions In Staffing. Internal control weaknesses and operational inefficiency will occur if incremental across-the-board cuts in staffing are taken instead of consolidation of RCOs. The Army Contracting Command will be required to take future reductions in staffing as additional base closure decisions are made. At the time of our audit, the reduction numbers were not known. As of January 1993, the Army Contracting Command had no official plans as to the future structure of headquarters and the RCOs. We believe across-the-board cuts may result in ineffective contracting and administration and lack of separation of duties, documentation, and supervision.

Works Council. At the Army contracting offices, about two-thirds of the employees are LNs. This significant number of LNs in the work force can cause potential problems when realigning the contracting offices, because LNs do not usually relocate outside of their commuting area, which makes consolidating or reducing contracting offices more difficult.

The works council represents LNs for personnel issues. Each contracting office has a works council with representatives from the local work force. The works council has the right of co-determination for almost all changes affecting LN jobs. For example, U.S. military employers are required to discuss termination actions in detail with the appropriate works council before issuing termination notices. In the best situation, the works council review takes 1 month. If the works council appeals the termination, the LN employee termination process is extended by an additional 2 months. Advanced planning is required to ensure the termination process is efficiently implemented. Therefore, action needs to start early for reductions in the number of LNs since DoD could be liable for several months of salary for each LN.

Conclusion. We believe a comprehensive budget and manpower review of the Army and the Air Force contracting offices in Germany needs to be performed. Contracting in Germany will continue to decline due to the troop reductions in Germany. Therefore, it will become even more important to plan for reductions at contracting offices as the troops withdraw.

Potential Monetary Benefits

About \$20 million of potential monetary benefits over a 5-year period should result from a reduction in staff if contracting offices are merged. In addition, overhead costs will be reduced by an undetermined amount (Appendix D).

Recommendations, Management Comments, and Audit Response

1. We recommend that the Assistant Secretary of Defense for Personnel and Readiness:

a. Perform a manpower and budget review to assess the consolidation of the U.S. Army, Europe, and the U.S. Air Forces in Europe contracting staffs in Germany. The review should take into consideration whether the Army or the Air Force should become the Executive Agent for contracting in Germany and the affects on the mission of the Army and the Air Force. Obtain assistance from Army and Air Force and other Department of Defense components as needed for the review.

b. Provide the results of the review to the Commander, U.S. Army, Europe; the Commander, U.S. Air Forces in Europe; and the Comptroller of the Department of Defense.

Management Comments. The Office of the Assistant Secretary of Defense for Personnel and Readiness concurred that a manpower and budget review should be conducted and suggested that the Director of Defense Procurement participate in the manpower and budget review. Headquarters, U.S. European Command stated that a non-Service-specific contracting organization in Europe would be difficult to implement. The Air Force concurred that a manpower and budget review should be conducted. The Air Force wanted the review to have input from Army and Air Force contracting and manpower staffs and to address the affect on the missions of the Army and the Air Force.

Audit Response. We agree that the manpower and budget review should include participants from other functional components. Personnel from the Office of the Director of Defense Procurement stated they did not consider the manpower and budget review a procurement policy issue and declined to participate in the review. We have revised the recommendation to incorporate suggested changes from the Assistant Secretary of Defense for Personnel and Readiness, the Headquarters, U.S. European Command, the Army and the Air Force. The Assistant Secretary of Defense for Personnel and Readiness response meets the intent of the recommendation; however, the comments

do not provide the dates for completing the planned action. We request the Assistant Secretary of Defense for Personnel and Readiness to provide additional comments that indicate when the proposed actions would be complete.

2. We recommend that the Comptroller of the Department of Defense initiate adjustments during the budget review process to realign and reduce work years as appropriate for the Army and the Air Force to implement the reductions and consolidations of contracting offices in Germany. The adjustment should be based on this audit report and the results of the manpower and budget review on contracting office consolidations.

Management Comments. The Headquarters, U.S. European Command stated that adjustments should be made after a manpower and budget review and not simply based on this audit report. The Air Force stated the potential monetary benefits should be deleted from the report pending the results of the manpower and budget review.

Audit Response. The monetary benefits cited in this report will change as a result of the ongoing drawdown in Europe, Army actions and the consolidation study. However, budgetary changes by the Comptroller of the Department of Defense will improve the study and help DoD achieve the most efficient and effective mix of contracting offices in Europe. The Comptroller of the Department of Defense did not respond to the draft report. Accordingly, we request the Comptroller provide comments on the recommendation.

3. We recommend that the Commander, U.S. Army, Europe, and the Commander, U.S. Air Forces in Europe, implement the results of the manpower and budget review of U.S. Army, Europe and the U.S. Air Forces in Europe contracting staffs in Germany.

Management Comments. The Air Force concurred in principle with the recommendation and stated the wording of the recommendation implied that consolidation was the outcome.

Audit Response. We agree that the manpower and budget review should determine if a consolidation is beneficial and practical and that the outcome of consolidation is not a foregone conclusion. We have revised the recommendation to clarify our intention.

4. We recommend that the Commander, U.S. Army, Europe:

- a. Reduce the number of contracting offices and staff in Germany.
- b. Reduce the staff at Headquarters, U.S. Army Contracting Command by reassigning staff to contracting offices or by eliminating positions.
- c. Reduce further the staff at contracting activities in Germany as additional troop reduction decisions are made.

Management Comments. The Office of the Assistant Secretary of Defense for Personnel and Readiness did not agree to the recommendation pending the results of the review covered in Recommendation 1.

Audit Response and Revised Recommendations. As a result of Army comments, we have revised Recommendation 4.a. to be generic in nature and have deleted Recommendations 4.b. and 4.c. that were in the draft report. Draft report Recommendations 4.d. and 4.e. were renumbered 4.b. and 4.c. in this final report. We request that the Army provide comments on the recommendations and address the Assistant Secretary's concerns when responding to the final report.

5. We recommend that the Commander, U.S. Air Forces in Europe, request the U.S. Army, Europe Contracting Center to provide contract support for Rhein Main Air Base.

Management Comments. The Air Force nonconcurred with the recommendation and stated the recommendation and the associated monetary benefits should be removed from this report at this time under the assumption that any such consolidation should be reviewed as part of Recommendation 1. The Air Force also stated that, since the contracting function transferred back from RCO Frankfurt to Rhein Main Air Base in April 1992, acquisition lead times improved by 50 percent. The Assistant Secretary of Defense for Personnel and Readiness does not concur at this time pending the results of the manpower and budget review in Recommendation 1.

Audit Response. The Air Force and the Office of the Assistant Secretary of Defense for Personnel and Readiness assumption that we are recommending that the manpower and budget review study the consolidation of Rhein Main Air Base contracting office with the Army UCC is erroneous. We are recommending that the consolidation occur immediately. Our review at the Rhein Main Air Base contracting office disclosed little justification for a separate contracting office. The main justification seems to be that the Rhein Main Air Base needs "deployable" Air Force personnel. We believe that these deployable Air Force personnel can, in fact, be assigned to the Army UCC where they would still be available for Air Force deployment when required. The Army informed us that the Army can perform the Air Force contracting. A simple comparison of the two workloads shows that the Air Force contracting workload at Rhein Main Air Base is miniscule compared to the workload handled by UCC. Of the nine contracts of more than \$50,000 awarded in FY 1992 for Rhein Main Air Base, only five contracts were awarded by the Rhein Main Air Base contracting office. Five contracts is hardly any great number to base improved efficiency of lead times. There is precedence for having one activity provide the contracting support in an overseas country. The Korea Contracting Agency provides consolidated contracting support for all of the Military Services. The Air Force comments indicate that the Air Force is determined to maintain its own contracting office at Rhein Main Air Base without considering cost or efficiency. The need for a Service-unique function is part of a traditional thought process that must be eliminated in order to conserve the shrinking amount of funds in DoD. We request the Air Force provide additional comments when responding to the final report.

Response Requirements Per Recommendation

Responses to the final report are required from the addressees shown for the items indicated with an "X" in the chart below.

<u>Number</u>	<u>Addressee</u>	<u>Response Should Cover:</u>			
		<u>Concur/ Nonconcur</u>	<u>Proposed Action</u>	<u>Completion Date</u>	<u>Related Issues*</u>
1.a.	ASD (P&R)			X	
2.	Comptroller, DoD	X	X	X	M
4.a.	Army	X	X	X	M
4.b.	Army		X	X	M
4.c.	Army		X	X	M
5.	Air Force	X	X	X	M

*M = monetary benefits

Part III - Additional Information

Appendix A. Prior Audits and Other Reviews

The following six reports were produced by the Office of the Inspector General, DoD.

Report No. 92-138, "Report on the Assistance Provided to U.S. Army Criminal Investigation Command at Regional Contracting Office Fuerth," September 25, 1992, showed the importance of internal controls in preventing fraud, waste, and abuse. The investigation identified a bribery and bid-rigging scheme involving 22 German contractors and 17 government employees. About \$4 million in bribes and gratuities was identified. Also, the investigation included other fraud aspects such as falsification of bids, product substitution, and false claims. The report did not contain findings or recommendations.

Report No. 92-131, "Report on the DoD Hotline Allegation of Overpricing of DoD Dependents Schools Student Bus Transportation," August 31, 1992, identified material internal control weaknesses involving contract administration of bus contracts. Recommendations were made to modify existing bus contracts and to establish procedures to monitor the contracts on a continuing basis. Management concurred and took corrective actions.

Report No. 91-114, "Audit Report on DoD Contracting in Europe, U.S. Army, Europe Contracting Center, Frankfurt, Germany," August 7, 1991, identified material internal control weaknesses involving documentation and surveillance for contract administration. The report recommended that UCC establish a system to periodically review procedures that pertain to contract surveillance and documentation. Management concurred and took corrective actions.

Report No. 91-113, "Audit Report on Processing Progress Payments in Tel Aviv, Israel, and in Heidelberg, Germany," August 7, 1991, identified material internal control weaknesses involving inadequate supervision, insufficient documentation, and noncompliance with regulations on the approval, payment, and liquidation of progress payments. The report recommended that USAREUR establish procedures to monitor the liquidation of progress payments. The Army concurred and took corrective actions.

Report No. 91-045, "Report on the Audit of Architect-Engineer Contracting at U.S. Army Engineer Division, Europe," February 13, 1991, identified internal control weaknesses involving separation of duties, supervision, execution of transactions, documentation, and noncompliance with regulations on the award, administration, and completion of contracts. The report made recommendations to UCC and to the U.S. Army Corps of Engineers to improve internal controls. Management agreed to establish the internal controls.

Appendix A. Prior Audits and Other Reviews

Report No. 90-084, "Report on the Audit of Architect-Engineer Contracting at Ramstein Air Base," June 14, 1990, identified internal control weaknesses involving separation of duties, supervision, execution of transactions, documentation, and noncompliance with regulations for the award, administration, and completion of contracts. The report recommended 17 different procedures for improving internal controls. The Air Force generally concurred and implemented the recommendations.

Appendix B. Army Contracting Work Load

FY 1992 workload data presented below were obtained from the Army Contracting Command and verified at the RCOs listed. The numbers shown for UCC include RCO Frankfurt. No external actions or administrative modifications are included in the workload data shown.

Army Contracting Offices Work Load in Germany - FY 1992

(Dollar Amounts in Millions)

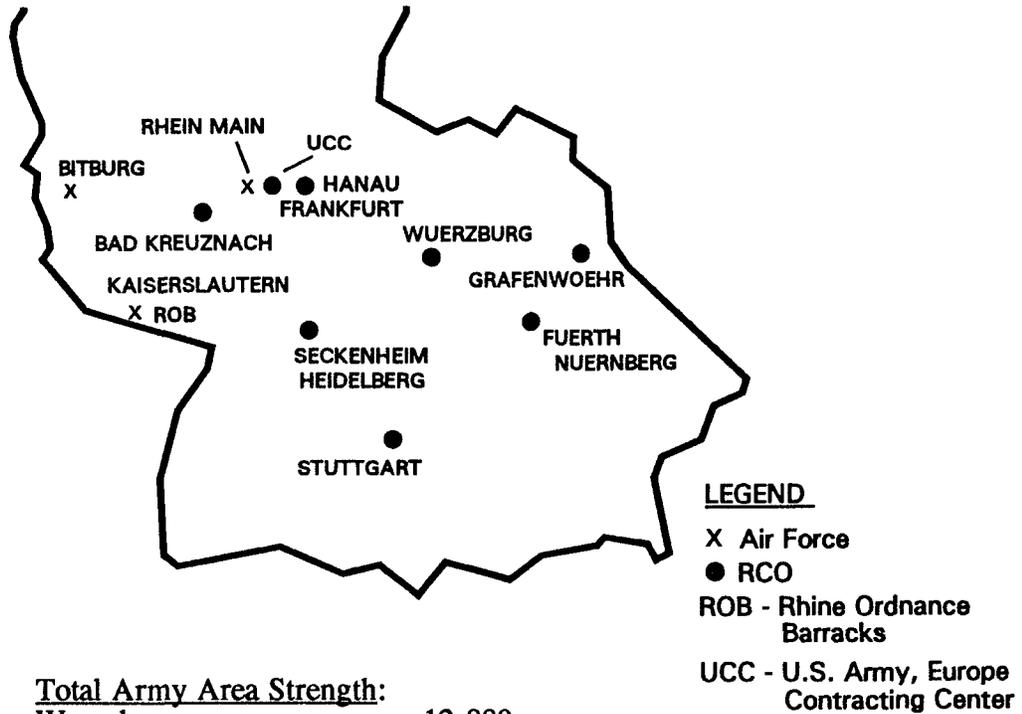
	<u>PO/BPA</u>	<u>DO</u>	<u>Contracts</u>	<u>MODs</u>	<u>Total</u>	<u>Percent</u>
UCC*						
ACTIONS	4,191	1,772	692	3,594	10,249	29.8
\$000,000'S	\$21.5	\$298.2	\$192.6	\$180.7	\$693.0	69.7
FUERTH						
ACTIONS	2,207	609	261	1,625	4,702	13.7
\$000,000'S	\$ 8.4	\$ 33.4	\$ 41.9	\$ 18.9	\$102.6	10.3
SECKENHEIM*						
ACTIONS	3,719	1,634	196	1,198	6,747	19.7
\$000,000'S	\$17.4	\$ 33.5	\$ 22.1	\$ 5.0	\$ 78.0	7.9
GRAFENWOEHR						
ACTIONS	2,395	1,240	293	617	4,545	13.2
\$000,000'S	\$ 8.2	\$ 12.8	\$ 34.9	\$ 7.2	\$ 63.1	6.3
HANAU						
ACTIONS	2,607	1,135	13	325	4,080	11.9
\$000,000'S	\$ 9.8	\$ 15.2	\$ 1.0	\$ 3.5	\$ 29.5	3.0
BAD KREUZNACH						
ACTIONS	1,394	397	0	175	1,966	5.7
\$000,000'S	\$ 4.6	\$ 9.1	\$ 0	\$ 2.2	\$ 15.9	1.6
WUERZBURG						
ACTIONS	1,409	355	4	286	2,054	6.0
\$000,000'S	\$ 6.0	\$ 4.1	\$.2	\$ 1.8	\$ 12.1	1.2
Total						
ACTIONS	<u>17,922</u>	<u>7,142</u>	<u>1,459</u>	<u>7,820</u>	<u>34,343</u>	
\$000,000'S	<u>\$75.9</u>	<u>\$406.3</u>	<u>\$292.7</u>	<u>\$219.3</u>	<u>\$994.2</u>	

*Contract documentation was not reviewed at this site.

Acronyms

DO	Delivery Orders
MODs	Modifications
PO/BPA	Purchase Orders/Blanket Purchase Agreements

Appendix C. Contracting Offices in Germany



Total Army Area Strength:

Wuerzburg	12,880
Hanau	12,515
Heidelberg	12,454
Nuernberg	11,779
Frankfurt	11,310
Bad Kreuznach	9,664
Grafenwoehr	8,772
Stuttgart ¹	837
Kaiserslautern ²	5,623

¹Suboffice of RCO Seckenheim to support U.S. European Command.

²Serviced by the USAFE ROB Contracting office under Creek Swap agreement.

Appendix D. Computation of Potential Monetary Benefits

Computation of potential monetary benefits was based on the closure of Army contracting offices and the Air Force Rhein Main Air Base contracting office. We used on-board staffing, excluding military personnel, at the time of our audit and the Army Contracting Command average salary and benefits to compute the monetary benefits. A one-time severance pay of \$4,400 was deducted for each local national.*

Computation of Potential Monetary Benefits - Army

<u>Personnel Categories</u>	<u>On-board Staff</u>	<u>Average Yearly Salary and Benefits</u>	<u>Total Average Yearly Salary and Benefits</u>	<u>5-Year Benefits</u>
General Schedule (GS)	7	\$71,409	\$ 499,863	\$ 2,499,315
Family Members (GS)	7	36,916	258,412	1,292,060
General Merit (GM)	3	84,767	254,301	1,271,505
Local Nationals	39	54,303	2,117,817	<u>10,589,085</u>
Sub-total				\$15,651,965
Less local national one-time severance pay				<u>(171,600)</u>
Total				<u>\$15,480,365</u>

Computation of Potential Monetary Benefits - Air Force

<u>Personnel Categories</u>	<u>On-board Staff</u>	<u>Average Yearly Salary and Benefits</u>	<u>Total Average Yearly Salary and Benefits</u>	<u>5-Year Benefits</u>
General Schedule (GS)	2	\$71,409	\$ 142,818	\$ 714,090
Local Nationals	14	54,303	760,242	<u>3,801,210</u>
Sub-total				\$4,515,300
Less local national one-time severance pay				<u>(61,600)</u>
Total				<u>\$4,453,700</u>

*Severance pay obtained from General Accounting Office Report GAO/NSIAD-92-62 (OSD Case No. 8641-D), "Base Closures, Long and Costly Process of Reducing the Local National Work Force in Germany," April 17, 1992.

Appendix E. Summary of Potential Benefits Resulting from Audit

Recommendation Reference	Description of Benefit	Amount and/or Type of Benefit
1., 2., and 3.	Economy and Efficiency. Eliminates duplication of effort.	Undeterminable. The manpower and budget review is required to determine the monetary amount.
4.a.	Economy and Efficiency. Consolidates and reduces contracting offices and staff.	Funds put to better use of about \$15.5 million of Operations and Maintenance, Army funds for FYs 1995 through 1999.*
4.b.	Economy and Efficiency. Reduces or reassigns staff.	Undeterminable. The decision to reduce or reassign will determine the monetary benefit amount.
4.c.	Economy and Efficiency. Consolidates and reduces contracting staffs.	Undeterminable. As additional troop reductions occur monetary benefits will be determined.
5.	Economy and Efficiency. Reduces contracting offices.	Funds put to better use of \$4.5 million of Operations and Maintenance, Air Force funds for FYs 1995 through 1999.*

*See Appendix D for details of computation on monetary benefits. The amount of monetary benefits may change pending the actions planned by the Army.

Appendix F. Activities Visited or Contacted

Office of the Secretary of Defense

Deputy Director Foreign Contracting, Director of Defense Procurement,
Washington, DC

Department of the Army

Assistant Secretary of the Army (Research, Development, and Acquisition),
Washington, DC

U.S. Army, Europe, Heidelberg, Germany

Office of the Deputy Chief of Staff, Engineering, Heidelberg, Germany

Office of the Deputy Chief of Staff, Operations, Heidelberg, Germany

U.S. Army Contracting Command, Europe, Heidelberg, Germany

Regional Contracting Office, Bad Kreuznach, Germany

Regional Contracting Office, Fuerth, Germany

Regional Contracting Office, Grafenwoehr, Germany

Regional Contracting Office, Hanau, Germany

Regional Contracting Office, Seckenheim, Germany

Regional Contracting Office, Wuerzburg, Germany

U.S. Army Audit Agency Frankfurt, Germany

Second Region, U.S. Army Criminal Investigation Command, Mannheim-Seckenheim,
Germany

Department of the Navy

Assistant Secretary of the Navy (Research, Development, and Acquisition),
Washington, DC

Inspector General, U.S. Navy, Europe, London, England

Department of the Air Force

Deputy Assistant Secretary of the Air Force (Contracting), Washington, DC

Air Force Office of Special Investigations, Ramstein Air Base, Germany

Air Force Office of Special Investigations, Rhein Main Air Base, Germany

Directorate of Contracting, U.S. Air Forces in Europe, Ramstein Air Base, Germany

Operational Contracting Office, Rhein Main Air Base, Germany

Other Defense Organizations

U.S. European Command, Stuttgart, Germany

Defense Logistics Agency, Alexandria, VA

Defense Contract Management Command International, Dayton, OH

Non-Defense Agencies

General Accounting Office, Frankfurt, Germany

Appendix G. Report Distribution

Office of the Secretary of Defense

Under Secretary of Defense (Acquisition and Technology)
Director of Defense Procurement
Deputy Director Foreign Contracting
Assistant Secretary of Defense for Personnel and Readiness
Comptroller of the Department of Defense

Department of the Army

Secretary of the Army
Assistant Secretary of the Army (Research, Development, and Acquisition)
Inspector General, Department of the Army
Commander in Chief, U.S. Army, Europe
Commander, U.S. Army Contracting Command, Europe
Chief, Regional Contracting Office Bad Kreuznach
Chief, Regional Contracting Office Fuerth
Chief, Regional Contracting Office Grafenwoehr
Chief, Regional Contracting Office Hanau
Chief, Regional Contracting Office Seckenheim
Chief, Regional Contracting Office Wuerzburg
Auditor General, Army Audit Agency

Department of the Navy

Secretary of the Navy
Assistant Secretary of the Navy (Financial Management)
Assistant Secretary of the Navy (Research, Development, and Acquisition)
Commander in Chief, U.S. Naval Forces, Europe
Auditor General, Naval Audit Service

Department of the Air Force

Secretary of the Air Force
Assistant Secretary of the Air Force (Financial Management and Comptroller)
Commander, U.S. Air Forces in Europe
Director, Directorate of Contracting, U.S. Air Forces in Europe
Chief, Operational Contracting Office, Rhein Main Air Base
Auditor General, Air Force Audit Agency

Other Defense Organizations

Commander in Chief, U.S. European Command
Director, Defense Logistics Agency
Defense Contract Management Command International

Non-Defense Activities

Office of Management and Budget
National Security and International Affairs Division, Technical Information Center,
General Accounting Office

Chairman and Ranking Minority Member of Each of the Following Congressional
Committees and Subcommittees:

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
House Committee on Armed Services
House Subcommittee on Oversight and Investigations, Committee on Armed
Services
House Committee on Government Operations
House Subcommittee on Legislation and National Security, Committee on
Government Operations

Part IV - Management Comments

Assistant Secretary of Defense for Personnel and Readiness Comments

Final Report
Reference



FORCE MANAGEMENT
AND PERSONNEL

THE OFFICE OF THE ASSISTANT SECRETARY OF DEFENSE

WASHINGTON, D C 20301-4000

02 JUL 1993

MEMORANDUM FOR DIRECTOR, CONTRACT MANAGEMENT DIRECTORATE
INSPECTOR GENERAL, DOD

SUBJECT: Draft Quick-Reaction Report on Procurement Activities
in Germany (Project No. 2CK-0066.00)

I concur in Recommendation 1 contained in the subject report calling for the conduct of a manpower and budget review of DoD's contracting requirements in Europe. However, the recommendation should be modified to provide for participation on the part of DoD's Director for Procurement who has overall responsibility for the contract function with the Department of Defense.

I do not concur with Recommendations 4 and 5 at this time, pending the results of the manpower and budget review called for under Recommendation 1.

A handwritten signature in cursive script that reads "Audrey J. Reeg".

Audrey J. Reeg
Director

Total Force Requirements

cc: Director for Administration, OASD (FM&P)

1.a.,
Page 14
Revised

4.a., 4.d.,
4.e.,
Page 15
Revised &
Renumbered,
4.b. & 4.c.
Deleted

Department of the Air Force Comments

Final Report
Reference



DEPARTMENT OF THE AIR FORCE
WASHINGTON DC



13 JUL 1993

OFFICE OF THE ASSISTANT SECRETARY

MEMORANDUM FOR ASSISTANT INSPECTOR GENERAL FOR AUDITING
OFFICE OF THE INSPECTOR GENERAL
DEPARTMENT OF DEFENSE

SUBJECT: Draft Quick-Reaction Report On Procurement Activities In Germany,
Project No. 2CK-0066.00 - INFORMATION MEMORANDUM

This is in reply to your memorandum requesting the Assistant Secretary of the Air Force (Financial Management and Comptroller) provide Air Force comments on the subject report.

The audit recommends a manpower and budget review be conducted to assess consolidation of Army and Air Force contracting staffs in Europe. We concur that prior to any consolidation an in-depth review and assessment of impact is required. This review must have input from Army and Air Force contracting and manpower functional staffs. The review must address the effect consolidation will have on the mission and organizational strategy employed by each Service, including peacetime, contingency and wartime plans for Europe and world wide defense. To be meaningful, the review must recognize and assess the full fiscal and strategic impacts associated with the proposed consolidations. From a manpower modeling standpoint, Air Force studies revealed that population served is not always a good manpower indicator for contracting. There is frequently an inverse relationship between population served and contracts needed. The lesser the in-house capability, the greater the need for contracting support. This concept and others should be considered during a consolidation review. Recommendation 1a should be changed to ensure all these aspects are considered and consolidation is not established as a foregone conclusion.

In recognition of global changes, the Air Force has transitioned to an Objective Wing philosophy. Under this organizational strategy, the Air Force mission is successfully accomplished with a reduced force structure using deployable units when and where needed. Contracting is a component of that deployment. It is also an integral element in the plan to provide commanders control over all assets needed to successfully operate and accomplish their goals. The audit findings and recommendations relative to consolidating Army and Air Force Contracting Commands in Europe disregard the importance of these fundamental Air Force strategies. They do not consider that geographic and functional overlaps occur only in the Kaiserslautern and Frankfurt/Rhein Main military communities or that Army and Air Force differences in mission, structure, operating philosophy and physical locations may preclude gains in efficiency or cost effectiveness.

1.a.,
Page 14
Revised

While the report points out that the U.S. Army, Europe Contracting Center (UCC) once provided contracting support for Rhein Main Air Base acquisitions in excess of \$50,000, it does not note the resulting impact on mission support. Since this function transferred back to Rhein Main AB in Apr 92, acquisition lead times have improved by 50%. This influences efficiency and effectiveness and has a resulting cost impact which is not addressed in the audit. Until a consolidation review is completed and coordinated with the affected Service Secretaries, it is premature to recommend the UCC provide contract support for Rhein Main AB. Accordingly, recommendation 5 and the associated potential monetary benefit should be eliminated from the report at this time.

Finally some of the findings contained in this report are not an objective result of the audit. They presume the results of the recommended study without the benefit of that study. The study may support the current approach as being the most effective and efficient, all factors considered. This is not the impression the reader gleans from the findings as currently stated. We request the findings be revised accordingly.

Further discussions concerning this matter should be directed to Ms Janna Buwalda, SAF/AQCO, (703) 614-1965.



DARLENA DRUYUN
Deputy Assistant Secretary
(Acquisition)

Headquarters, U.S. European Command Comments

Final Report
Reference



REPLY TO
ATTENTION OF

HEADQUARTERS
UNITED STATES EUROPEAN COMMAND
UNIT 30400, APO AE 09128



ECJ4-LI (25-1b)

02 JUL 1993

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

SUBJECT: Procurement Activities in Germany

1. This letter is in response to a Quick-Reaction DOD-IG draft audit report concerning "Procurement Activities in Germany" (Project No. 2CK-0066.00).

2. Regarding Recommendation #2, we wish to emphasize that adjustments be made after a manpower and budget review, not simply based on this report. We also feel that the recommendation to create a non-service specific contracting organization in Europe would be extremely difficult to implement. Other than DLA activities, we are not aware of this type of organization at any other operational commands.

3. Our point of contact on this issue is LCDR Bruce Gearey or Maj Earl Ficken at DSN 430-7474/75.

WILLIAM W. FARMEN
Major General, USA
Director, Logistics and Security
Assistance Directorate

1.a.,
Page 14
Revised

Audit Team Members

David K. Steensma	Director, Contract Management Directorate
Paul J. Granetto	Deputy Director
Joseph P. Doyle	Audit Program Director
Deborah L. Culp	Audit Project Manager
Stephanie F. Mandel	Senior Auditor
Sean P. Eyen	Auditor
Kevin E. Richardson	Auditor
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Patricia M. Crumm	Auditor
Robin A. Hysmith	Administrative Support