Audit Report

CONTRACT ACTIONS FOR LEASED EQUIPMENT

Report Number 99-195 June 30, 1999

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Acronyms

FAR	Federal Acquisition Regulation
GSA	General Services Administration
OSD	Office of the Secretary of Defense
DCADS	Defense Contract Action Data System

INSPECTOR GENERAL
DEPARTMENT OF DEFENSE
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ARLINGTON, VIRGINIA 22202-2884

June 30, 1999

MEMORANDUM FOR DEPUTY UNDER SECRETARY OF DEFENSE (ACQUISITION REFORM)
UNDER SECRETARY OF DEFENSE (COMPTROLLER)
DIRECTOR, DEFENSE PROCUREMENT
ASSISTANT SECRETARY OF THE NAVY (FINANCIAL MANAGEMENT AND COMPTROLLER)
ASSISTANT SECRETARY OF THE AIR FORCE (FINANCIAL MANAGEMENT AND COMPTROLLER)
AUDITOR GENERAL, DEPARTMENT OF THE ARMY
COMMANDER, UNITED STATES TRANSPORTATION COMMAND

SUBJECT: Audit Report on Contract Actions for Leased Equipment (Report No. 99-195)

We are providing this audit report for review and comment. We considered management comments on a draft of this report in preparing the final report.

DoD Directive 7650.3 requires that all recommendations be resolved promptly. The Army and the Air Force comments are partially responsive. We request that the Army provide additional comments on Recommendations A.1., C.2., C.3., C.4., and D., and the Air Force provide comments on Recommendations A.1., and D. by August 30, 1999.

We appreciate the courtesies extended to the audit staff. Questions on this audit should be directed to Mr. Garold E. Stephenson at (703) 604-9332 (DSN 664-9332) (gstephenson@dodig.osd.mil) or Mr. Eric B. Edwards at (703) 604-9219 (DSN 664-9219) (eedwards@dodig.osd.mil). See Appendix F for the report distribution. Audit team members are listed on the inside back cover.

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Office of the Inspector General, DoD

Report No. 99-195 **June 30, 1999**
(Project No. 7CH-0055)

Contract Actions for Leased Equipment

Executive Summary

Introduction. Federal Acquisition Regulation (FAR), subpart 7.4, "Equipment Lease or Purchase," provides policy guidance, procedures, and acquisition considerations pertaining to the decision to acquire equipment by lease or purchase. The guidance requires agencies to perform a case-by-case evaluation of comparative costs and other factors when determining whether to lease or purchase equipment. The Defense Contract Action Data System showed that from October 1, 1995, through February 28, 1997, DoD Components awarded approximately 2,300 contract actions for leased equipment valued at about $311 million Our audit reviewed 237 contract actions valued at about $69.1 million. The audit results were projected to the adjusted universe of 1,295 contract actions valued at about $146.8 million.

Objectives. The overall audit objective was to evaluate the requirements for, and management of, leased equipment purchases by the Military Departments and Defense agencies. The audit determined whether inventories of DoD-owned excess equipment were screened prior to obtaining equipment by lease and whether DoD organizations performed lease purchase analyses as required by the FAR and other applicable regulations. In addition, the audit evaluated the management control program as it applied to the award of contracts for leased equipment.

Results. DoD organizations either did not perform or did not properly perform required lease purchase analyses prior to awarding 543 contract actions, valued at about $58.6 million, for leased equipment based on statistical projections. As a result, DoD organizations incurred about $6.2 million in unnecessary costs. DoD organizations did not properly fund 11 contracts, valued at approximately $8 million, that qualified as capital leases that may have resulted in potential violations of the Antideficiency Act. Further, the Military Sealift Command and the Military Traffic Management Command did not maintain effective contract oversight of contracts for leased intermodal shipping containers. Consequently, DoD paid approximately $1 million in FY 1996 for 115 leased containers that were lost. DoD also incurred approximately $65,000 in late Prompt Payment Act interest because of unpaid leased container invoices. In addition, DoD organizations rarely screened existing inventories of DoD or other Federally owned equipment as procurement sources and incurred unnecessary costs by leasing equipment that may have been available from other Government sources. See Appendix A for a discussion of the management control program

Summary of Recommendations. We recommend that the Army, Navy, and Air Force Acquisition Executives issue guidance that requires that contracting officers obtain lease purchase analyses before awarding new contracts for leased equipment, or exercising future options for active contracts for leased equipment where no initial lease purchase analyses were performed; and obtain written certifications with requests to lease equipment that requirements were screened against inventories of Federally-owned excess equipment. We recommend that the Deputy Under Secretary of Defense (Acquisition Reform) require the Defense Acquisition University to stress in their existing contracting courses the ramifications of not complying with DoD guidance when leasing equipment. We recommend that the Assistant Secretaries (Financial Management and Comptroller) of the Army, the Navy, and the Air Force investigate, for the contracts under their cognizance, the 11 potential Antideficiency Act violations. We recommend that the Director, Defense Acquisition Regulations Council, amend the Defense Federal Acquisition Regulation Supplement (DFARS), subpart 207.4, to alert contracting officers of the requirements contained in capital lease and operating lease criteria contained in DoD Financial Management Regulation 7000.14-R, volume 4, Chapter 7, section 070308, "Assets Under Capital Lease." We also recommend that the Commander, Military Traffic Management Command, staff the Joint Traffic Management Office Intermodal Equipment Division to meet the workloads or obtain contractor support to augment staffing; establish baseline schedules and performance goals for the office for certifying and processing invoices, updating databases and maintaining contract files, and tracking actual performances, and implement procedures to track and ensure return of intermodal containers to vendors, and request that the Commander, U S. Transportation Command, convene the Joint Intermodal Container Working Group to develop guidelines defining the joint responsibilities of the Joint Traffic Management Office and the Services for accountability of containers.

Management Comments. We received comments from the Deputy Under Secretary of Defense (Acquisition Reform); the Deputy Assistant Secretary of the Army (Financial Operations); Deputy Assistant Secretary of the Navy (Planning, Programming, and Resources), Associate Deputy Assistant Secretary of the Air Force (Contracting); the Military Traffic Management Command; and the Military Sealift Command. We did not receive comments from the Air Force on two recommendations With the exception of the Army, management generally agreed with the recommendations. A discussion of the management comments is in the Finding section of the report, and the complete text is in the Management Comments section.

Additional Comments Required. We request that the Army, the Navy, and the Air Force provide additional comments by August 30, 1999.

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Background

Criteria for Leasing Equipment. The following laws and regulations specifically address equipment leasing by DoD.

- Section 2401a of Title 10, United States Code, "Lease of Vehicles, Equipment, Vessels and Aircraft," provides that the Secretary of Defense may use leasing to obtain commercial vehicles and equipment whenever leasing is practicable and efficient. However, the Secretary of Defense or the Secretary of a Military Department may not enter into a contract with a term of 18 months (including extensions) or more for any vessel, aircraft, or vehicle, through a lease, unless there is a written determination that the contract is in the best interest of the Government.

- Section 101-43 of Title 41, Code of Federal Regulations, "Federal Property Management Regulations," requires that Government agencies, to the maximum practicable extent, fulfill requirements for property by obtaining excess personal property from other Federal agencies instead of initiating new procurements

- Office of Management and Budget (OMB) Circular A-94, "Guidelines and Discount Rates for Benefit-Cost Analysis of Federal Programs," states that whenever a Federal agency needs to acquire the use of a capital asset, it should do so in the manner that is least expensive for the Government. Capital assets are defined as tangible property, including durable goods, equipment, buildings, facilities, installations, and land.

- OMB Bulletin 91-02, "Instructions on an October Update of the Baseline, Treatment of Purchases, Lease-Purchases, and Leases and Presentation of Credit Data in the FY 1992 Budget", October 18, 1990, and DoD Financial Management Regulation 7000.14-R, provide the criteria for operating leases and capital leases.

- Federal Acquisition Regulation (FAR), subpart 7.4, "Equipment Lease or Purchase," requires that agencies evaluate comparative costs and other factors when determining whether to lease or purchase equipment. Other factors include: length of use, financial and operating advantages of alternative types of equipment, cumulative rental payments for the estimated period of use, net purchase price, transportation and installation costs, maintenance and other service costs, and potential equipment obsolescence because of technological improvements.

- FAR, part 8, "Required Sources of Supplies and Services," requires agencies to screen existing inventories or the inventories of excess personal property from other agencies as a priority method to fulfill supply requirements. General Services Administration catalogues and bulletins are additional sources of information regarding the availability of excess personal property

- Defense Federal Acquisition Regulation Supplement (DFARS), subpart 207 4, "Equipment Lease or Purchase," states that the requiring organization must prepare and provide the contracting officer with justification supporting the decision to lease or purchase equipment, if it will be leased for more than 60 days.

- DoD Instruction 7041.3, "Economic Analysis for Decisionmaking," November 7, 1995, states that where alternative methods of financing are available, a comparative cost analysis should be prepared to document that the lowest cost method of acquisition has been considered. The instruction also reiterates that when a DoD organization needs to acquire the use of a capital asset, it should do so in the way that is the least expensive life-cycle cost to the Government

Number and Value of Contract Actions for Leased Equipment. According to the Defense Contract Action Data System (DCADS), DoD components awarded approximately 2,300 contract actions for leased equipment, valued at about $311 million, from October 1, 1995 to February 28, 1997.

Objectives

The overall audit objective was to evaluate the requirements for and award of contracts for leased equipment by the Military Departments and Defense agencies. The audit determined whether inventories of DoD-owned excess equipment were screened prior to obtaining equipment by lease and whether DoD organizations performed lease purchase analyses as required by the FAR and other applicable regulations. The audit also evaluated the adequacy of the management control program as it applied to the audit objectives See Appendix A for a review of the management control program

A. Performance of Lease Purchase Analyses

DoD organizations either did not perform or did not properly perform required lease purchase analyses prior to awarding basic contracts and options, valued at $58.6 million, for 543 contract actions for leased equipment based on statistical projections. The primary reasons DoD organizations either did not perform or incorrectly performed lease purchase analyses were:

- funds were not available to purchase the equipment, and
- contracting officers either believed that lease or buy analyses were unnecessary, or were unaware of the criteria they should use in order to perform a correct analysis

Because lease purchase analyses were either not prepared or incorrectly prepared, DoD incurred about $6 2 million in unnecessary additional costs by leasing rather than purchasing the equipment

Lease Purchase Analysis Guidance

The FAR, DFARS, and a DoD Instruction provide specific guidance for contracting organizations to consider before awarding contracts for leased equipment

FAR Guidance. FAR, section 7 4, "Equipment Lease or Purchase," requires agencies to perform a case-by-case evaluation of comparative costs and other factors when determining whether to lease or purchase equipment Specifically, agencies should consider such factors as period of use, alternative types and makes of equipment, net purchase price, installation and maintenance costs, and technological obsolescence.

DFARS Guidance. DFARS, subpart 207.4, "Equipment Lease or Purchase," requires agencies to prepare and provide contracting officers with justifications that support the decision to lease or purchase equipment if the equipment will be leased more than 60 days

DoD Guidance. DoD Instruction 7041.3, "Economic Analysis for Decisionmaking," requires agencies to prepare a comparative cost analysis to show that the lowest cost method of acquisition has been considered at the least expensive life-cycle cost to the Government.

Review of Contracts for Leased Equipment. We reviewed 237 contractual actions, valued at about $69.1 million, that DCADS showed were for leased equipment We determined that 86 actions (valued at about $22.5 million) were coded incorrectly (see Appendix A). Of the 151 correctly coded actions, valued at $46.6 million, the decision to lease equipment for 136 actions, valued at about $42.9 million, was valid The decision to lease equipment for 15 contract actions, valued at about $3.7 million (see Table 1), was invalid. The 15 actions represent about 10 percent of the contract actions for leased equipment.

Table 1. Improper or Incorrect Sample Contract Actions for Leased Equipment

Equipment Item	Contract Action	Amount	Additional Costs
Aerial Bucket Trucks	DAKF57-92-C-0072-P00016	$55,350	$175,000[1]
Forklifts	N00406-94-C-4183-P00001	216,840	200,000[2]
Blueprint Copy Machine	F49642-96-F-0042	65,843	147,043[3]
Hi-Reach Crane Truck	F34650-96-C-0002	43,080	35,000[4]
Manlifts	N00406-95-C-4133-P00002	180,576	113,763
Nuclear Imaging System	N00600-92-C-0226-P00012	251,751	825,630
Portable Chemical Toilets	M00681-95-D-0011-3	274,749	Indeterminable
Security System	N00600-94-C-2502-P00009	244,961	Indeterminable
Steam Plant	N68931-94-C-E335-P0005	1,103,020	Indeterminable
Construction Equipment	M00681-94-D-0008-3	532,800	Indeterminable
Truck-Tractors	DACW68-96-M-3515	74,650	Indeterminable
Vehicles	N68171-94-D-A013-P00002	128,965	Indeterminable
Vehicles	N68171-94-D-A057-P00002	164,072	Indeterminable
Vehicles	N33191-95-D-7345	337,737	Indeterminable
Wave Tubes & Spectrum Analyzer	N00173-96-P-2637-P00001	41,184	41,184
	Total	**$3,715,578**	**$1,537,620**

[1]Based on total value of basic contract of $307,500

[2]Based on total value of basic contract of $910,402.

[3]Based on total value of basic contract of $260,043

[4]Based on total value of basic contract of $120,480.

Preparation of Lease Purchase Analyses. DoD organizations prepared analyses for only 73 actions valued at $24.1 million. The other 62 actions, valued at $17.4 million, did not have the lease purchase analyses required by DFARS, subpart 207.4. Statistical projection of those results showed 320 contract actions from the audit population, valued at about $37.5 million, had no analyses.

For the 73 actions that had lease purchase analyses, DoD organizations did not properly prepare the analyses for 40 actions, valued at about $7.5 million Statistical projections of those results showed that 223 contract actions from the audit population, valued at about $21.1 million, had improperly prepared analyses. The analyses were not properly prepared because they either did not:

- document and quantify the benefits associated with each alternative method of acquisition; or
- compare the costs and benefits of each alternative and rank them according to net present value; or
- include a sensitivity analysis to test whether the results of an economic analysis would change if a cost, benefit or other assumed variable changed; or
- itemize maintenance and training costs from the lease cost

As a result, the analyses did not comply with the requirements of DoD Instruction 7041.3. For the 102 actions that either did not have an analysis or the analysis was not properly prepared, contracting officers either erroneously believed lease or buy analyses were not necessary, or were not aware of the requirements to perform them correctly. See Appendix C for details on the 151 actions reviewed.

Invalid Lease Purchase Analyses. For the 15 contract actions, where the decision to lease was invalid, Table 2 describes the reasons why contracting officers did not obtain or ensure lease purchase analyses were prepared in accordance with DFARS, subpart 207.4 and DoD Instruction 7041.3.

Table 2. Reasons for Invalid Lease Purchase Analyses

Reasons	Number Of Actions
Could not obtain funds to purchase equipment	4
Never considered purchasing equipment originally	4
Did not believe analysis was needed	2
Unaware of requirements for lease purchase analysis	2
Failure to select less costly purchase alternative	1
Unable to locate analysis	1
Unable to determine purchase price	1
	15

To prevent future noncompliance with applicable DoD criteria concerning the requirements for lease purchase analyses, the Service Acquisition Executives should require contracting officers to obtain lease purchase analyses before awarding new contracts for leased equipment, or exercising future options for active contracts for leased equipment where no initial lease purchase analyses were performed, but were required In addition, the Deputy Under Secretary of

Defense (Acquisition Reform) should require the Defense Acquisition University to stress the ramifications of not complying with DFARS 207.4 and DoD Instruction 7041.3 when leasing equipment in their existing Contracting Fundamentals, Fundamentals of Contract Pricing, and Government Contract Law courses. The additional instruction should emphasize the contracting officers' responsibility to obtain and review lease purchase analyses prior to awarding contracts for leased equipment, when required.

Conclusion

The absence of properly prepared lease purchase analyses for 102 of 151 leases increases the risk of poor investment decisions. Based on statistical projections of seven contract actions for leased equipment, DoD organizations incurred about $6 2 million in unnecessary costs Unnecessary costs attributable to eight contract actions could not be projected because the original purchase price of the equipment could not be determined.

Recommendations, Management Comments, and Audit Response

A.1. We recommend that Acquisition Executives for the Army, the Navy, and the Air Force require that contracting officers obtain lease purchase analyses before awarding new contracts for leased equipment or exercising future options for active contracts for leased equipment where no initial lease purchase analyses were performed, but were required.

Army Comments. The Army concurred, but stated that it would be more efficient for DoD to implement the recommendation through use of the DFARS rather than each Department issuing separate instructions

Audit Response. The intent of the recommendation is to effect compliance with the guidance in FAR, subpart 7.4; DFARS, subpart 207.4; and DoD Instruction 7041 3. The Component Acquisition Executives are responsible for enforcing compliance with the guidance and promoting sound decision making by contracting officers. We believe that implementing the recommendation through the DFARS would cause additional administrative and bureaucratic type work and is contrary to promoting decision making at the lowest possible level. We request that the Army reconsider its position on the recommendation in response to the final report

Navy Comments. The Navy concurred and issued a memorandum in April 1999 to the heads of all of its contracting organizations. The memorandum reemphasized the requirements of FAR, subpart 7.4, and advised contracting officers that no new contracts for leased equipment shall be awarded, or existing contracts for leased equipment for which no initial lease purchase analysis was completed shall be extended, until the contracting officer obtained the required lease purchase analysis.

Air Force Comments. The Air Force did not comment on the recommendation. We request that the Air Force provide comments in response to the final report

A.2. We recommend that the Deputy Under Secretary of Defense (Acquisition Reform) require the Defense Acquisition University to stress the ramifications of noncompliance with DFARS 207.4 and DoD Instruction 7041.3 in their existing Contracting Fundamentals, Fundamentals of Contract Pricing, and Government Contract Law courses. This additional instruction should emphasize the important responsibilities that contracting officers have to obtain and review lease purchase analyses prior to awarding contracts for leased equipment.

Management Comments. The Deputy Under Secretary of Defense (Acquisition Reform) stated that the required readings at the Defense Acquisition University include FAR 107.401 and 207.470 in the Basics of Contracting and Government Contract Law courses, and that price analysis in assessing lease versus purchase tradeoffs is covered in the Principles of Contract Pricing course. The Deputy Under Secretary stated that the Defense Acquisition University would direct its instructors and staff to emphasize the findings and recommendations in the audit report.

B. Funding of Capital Leases

DoD organizations did not use the correct appropriations to fund 11 contracts, valued at approximately $8 million, that qualified as capital leases. This condition occurred because contracting officers and program officials at the requiring organizations were not aware of the differences between operating and capital leases The improper funding of capital leases resulted in potential Antideficiency Act violations.

Guidance for Operating and Capital Leases

OMB Guidance. OMB Bulletin 91-02, "Instructions on an October Update of the Baseline; Treatment of Purchases, Lease-Purchases, and Leases and Presentation of Credit Data in the FY 1992 Budget," October 18, 1990, provides the criteria for operating and capital leases As defined in the guidance, an operating lease must meet all of the following criteria

- Ownership of the asset remains with the lessor during the term of the lease and is not transferred to the Government when the lease terminates
- The lease does not contain a bargain price purchase option
- All risks of ownership for the asset remain with the lessor.
- The lease term does not exceed 75 percent of the estimated economic life of the asset
- The present value of the minimum lease payments over the life of the lease does not exceed 90 percent of the fair market value of the asset at the inception of the lease.
- The asset is a general-purpose asset and is not built to unique specification of the Government as lessee
- There is a private sector market for the asset.
- The asset is not constructed on Government land.

A capital lease is any lease other than a lease-purchase that does not meet the criteria of an operating lease. Capital leases should be funded with procurement funds.

DoD Guidance. DoD Financial Management Regulation 7000.14-R (FMR), volume 4, Chapter 7, section 070308, is consistent with the criteria for capital and operating leases found in OMB Bulletin 91-02 The FMR provides generally that capital leases will be treated as the acquisition of an asset. Operating leases are treated as expenses. Additional guidance in the FMR, volume 2a, Chapter 1, specifies that expenses are generally funded from operation and maintenance accounts, while investment costs are funded from procurement accounts.

Potential Antideficiency Act Violations

We reviewed 11 contracts for leased equipment that resulted in potential Antideficiency Act violations. Table 3 identifies the contracts with potential violations by DoD Component.

Table 3. Contracts with Potential Antideficiency Act Violations

Contracting Office	Contract	Total Value
Army		
Fort Lewis	DAKF57-92-C-0072	$ 307,500
Medical Research Acquisition Activity	DAMD17-95-C-5062 P60003	405,625
Navy		
Fleet & Industrial Supply Center-Bremerton	N00406-95-C-4133-P00002	541,728
	N00406-94-C-4200	3,741,210
	N00406-96-C-4048	238,464
	N00406-94-C-4183	910,402
Fleet & Industrial Supply Center-Washington, DC	N00600-92-C-0226	1,144,110
Air Force		
Bolling Air Force Base	F49642-96-F-0042	260,043
Eglin Air Force Base	F08651-92-C-0001	221,900
Tinker Air Force Base	F34650-96-C-0002	120,480
Sacramento Air Logistics Center	F04699-95-C-0034	125,990
Total		**$8,017,452**

These potential violations occurred because the DoD organizations funded the capital leases with other than procurement or capital investment funds, as required by the OMB and DoD guidance.

The Antideficiency Act encompasses a number of provisions codified in Title 31, United States Code In this case, the use of inappropriate funds for capital leases would initially constitute a violation of the "purpose statute," 31 U.S.C. 1301(a). If the acquiring command is unable to make adjustments to fund the acquisition from the correct appropriation, then a Antideficiency Act violation may occur, either at Title 31, U.S.C , section 1341(a)(1)(A) or 1517(a). Those sections prohibit expenditures and obligations exceeding amounts available in appropriations or administrative subdivisions of appropriations, respectively.

Conclusion

The Assistant Secretaries (Financial Management and Comptroller) of the Army, the Navy, and the Air Force should investigate the contracts under their cognizance listed in Table 3 of this report for potential Antideficiency Act violations arising from using improper funds to contract for capital leases. If any violations of the Antideficiency Act occurred, the Assistant Secretaries should comply with the reporting requirements in DoD Financial Management Regulation (DoD 7000.14-R), volume 14, "Administrative Control of Funds and Anti-Deficiency Act Violations " Further, because some contracting officers were apparently not familiar with the criteria for operating and capital leases, we believe that the Defense Acquisition Regulations Council should amend DoD Federal Acquisition Regulation Supplement, subpart 207.4, to include the capital lease and operating lease criteria contained in DoD Financial Management Regulation 7000.14-R, volume 4, Chapter 7, section 070308, "Assets Under Capital Lease."

Recommendations, Management Comments, and Audit Response

Revised Recommendation. As a result of management comments, we revised Recommendation B.2. to cite the specific amendment language needed for DFARS, subpart 207.4, to alert contracting officers of the requirements contained in DoD Financial Management Regulation 7000.14-R, volume 4, Chapter 7, section 070308.

B.1. We recommend that the Assistant Secretaries (Financial Management and Comptroller) of the Army, the Navy, and the Air Force investigate the contracts under their cognizance for potential Antideficiency Act violations arising from improper funding of capital leases, and if any violations of the

Antideficiency Act occurred, comply with the reporting requirements in DoD Financial Management Regulation 7000.14-R, volume 14, "Administrative Control of Funds and Antideficiency Act Violations." The Assistant Secretaries should also provide a copy of the preliminary review reports, the monthly status reports on the formal investigations, and the final formal investigation reports to the IG, DoD.

Army Comments. The Army stated that it initiated investigative proceedings for the two Army contracts cited in the report in accordance with DoD Financial Management Regulation, volume 14, to determine if there were potential Antideficiency Act violations. The Army estimates completion by August 30, 1999, and will provide the results of the review to the Inspector General, DoD, upon completion.

Navy Comments. The Navy concurred and stated that it would conduct a preliminary review for potential Antideficiency Act violations. However, the Navy recommended that the Inspector General, DoD, obtain preliminary status reports on the formal review from the Under Secretary of Defense (Comptroller) to avoid redundant reporting.

Air Force Comments. The Air Force concurred and stated that it directed applicable organizations to begin a preliminary review of the potential Antideficiency Act violations in January 1999. If an Antideficiency Act violation occurred, the Air Force stated that it will comply with the reporting requirements.

B.2. We recommend that the Director, Defense Acquisition Regulations Council, amend DoD Federal Acquisition Regulation Supplement, subpart 207.4, to alert contracting officers of the requirements contained capital lease and operating lease criteria contained in DoD Financial Management Regulation 7000.14-R, volume 4, Chapter 7, section 070308, "Assets Under Capital Lease."

Management Comments. The Deputy Under Secretary of Defense (Acquisition Reform) concurred with the recommendation to provide contracting officers guidance on capital lease funding requirements. However, he believed that it was not appropriate to amend Defense Federal Acquisition Regulation Supplement, subpart 207.4, to include guidance already contained in DoD Financial Management Regulation 7000.14-R, volume 4, Chapter 7, section 070308. Instead, he stated Defense Federal Acquisition Regulation Supplement Case 99-D012 has been opened to amend Defense Federal Acquisition Regulation Supplement, subpart 207.4, to alert contracting officers of the requirements contained in DoD Financial Management Regulation 7000.14-R, volume 4, Chapter 7, section 070308.

Audit Response. The Deputy Under Secretary of Defense (Acquisition Reform) comments are responsive. We revised Recommendation B.2 to amend Defense Federal Acquisition Regulation Supplement, subpart 207.4, to alert contracting officers of the requirements contained in DoD Financial Management Regulation 7000.14-R, volume 4, Chapter 7, section 070308.

C. Management of Leased Intermodal Shipping Containers

The Military Sealift Command (MSC) and the Military Traffic Management Command (MTMC) did not maintain effective oversight of contracts for leased intermodal shipping containers. The ineffective oversight occurred because neither MSC nor MTMC

- adequately staffed the organizations responsible for managing the leasing of containers, and
- established adequate management systems to verify that leased containers were returned in accordance with contract terms

As a result, DoD paid $951,274 in FY 1996 for 115 lost leased containers that could not be returned to vendors. DoD also incurred $65,202 in interest from October 1, 1996 through August 20, 1998, because leased container invoices were not paid on time.

Management Responsibility for Intermodal Containers

DoD Guidance. DoD Directive 4500.37, "Management of the DoD Intermodal Container System," April 2, 1987, describes the policies, procedures, and responsibilities to develop and manage a fully interrelated DoD and commercial intermodal container system. DoD 4500.9-R-1, "Management and Control of the DoD Intermodal Container System," April 11, 1997, states that the Commander, MTMC, shall manage and monitor the status of DoD-owned, leased, and commercial intermodal surface containers while these containers are in the Defense Transportation System, other than those managed by the Military Sealift Command.

U.S. Transportation Command and Component Commands. The U.S. Transportation Command (USTRANSCOM) is the single manager for transportation and common-use container systems for the DoD. USTRANSCOM also exercises command authority over all DoD container system assets, except for Service-unique or theater-assigned assets. USTRANSCOM delegated MTMC (Army component command) management responsibility for DoD common-use containers. However, prior to October 1, 1997, MSC (USTRANSCOM Navy component command) shared responsibility for procurement (MSC) and program management (MTMC) for common-use containers, services, and support equipment for the DoD container system and procurement of Service-unique containers, services, and support equipment for DoD Components On May 22, 1996, USTRANSCOM approved the establishment of the Joint Traffic Management Office (JTMO) under MTMC direction. The office was established to consolidate MTMC and MSC management responsibilities for surface intermodal cargo and container movements, and to provide a single procurement agency for DoD components requiring intermodal shipping containers. The consolidation to JTMO was to be completed in two phases. Phase I commenced August 1, 1996, and Phase II commenced October 1, 1997.

MSC Management of Intermodal Container Programs. Ten of the 237 contract actions reviewed, awarded by MSC between September 14, 1996 and March 20, 1997, were modifications to basic contracts for the lease of intermodal shipping containers to transport material for Operation Uphold Democracy in Haiti. The total value of the 10 contract actions was $2,594,749. For four of the 10 contract actions, MSC paid the contractors $951,274 for 115 containers that could not be returned to the contractors because they were lost, stolen or retained by the recipients. The total number of containers originally leased pertaining to 2 of the 4 contract actions was 158 units. However, the number of units originally leased related to the other two actions could not be determined because of inadequate contract file documentation. Table 4 provides details on the contract actions and number of containers involved in the buyouts.

Table 4. Container Buyouts During Operation Uphold Democracy

Contract Action	Number of Container Buyouts	Cost of Buyouts
N62387-94-D-3105-P00020	9	$ 19,980
N62387-94-C-3078-P00019	20	117,070
N62387-94-C-3081-P00014	20	130,000
N62387-95-D-3010-P00007	66	684,224
Total	**115**	**$951,274**

Upon delivery, custody of the containers and their contents transferred to the receiving units. The receiving units were responsible for returning the containers to a port after the cargo had been removed. However, containers became lost in the theater of operations because USTRANSCOM and its component commands did not have a tracking system for the empty containers. This weakness became evident during Operation Desert Storm, which was the first major tactical operation using intermodal shipping containers. During Operation Desert Storm, many containers remained in the operational theater for storage or other purposes, while others were lost.

Container Tracking Systems. MSC and JTMO officials acknowledged control problems while containers were in overseas theaters. JTMO had no mechanism to track the movement of intermodal containers back to the contractors.

USTRANSCOM established a Joint Intermodal Container Working Group (JICWG) to address issues related to intermodal containers. The working group last met on December 5, 1997, and made little progress to improve container accountability and management. The JICWG needs to emphasize to the Military Services that container accountability is a joint responsibility that must be coordinated in order to ensure return of leased containers to vendors As an interim measure, JTMO is relying on the vendors to track their leased containers. JTMO has an operational container tracking system, but because of personnel shortages, it has not been updated since August 1997. JTMO recently implemented an Asset Management System II (AMS), which will track receipt and disposal of equipment, and provide greater asset visibility of DoD-owned shipping containers. However, this system will not track leased containers back to the vendors

Staffing of JTMO Intermodal Equipment Division. MSC and MTMC did not adequately plan and coordinate the transfer of management and procurement responsibilities for intermodal containers to JTMO. MTMC also did not fill vacant positions in the Intermodal Equipment Division MSC transferred program management of the Intermodal Equipment Division to JTMO on August 1, 1996, but did not formally relinquish control of the five personnel positions until February 1, 1998 Of a total of 19 personnel authorized for the JTMO, MTMC had only 9 employees working on intermodal container programs in December 1997, and a total of 14 employees in October 1998. Recruitment action on the five vacant positions had been in process an average of 242 days. By contrast, the U.S Army Civilian Personnel Evaluation Agency identified 129 days as the average for filling civilian positions in the Washington, DC area. The staffing problems have resulted in delays in processing contractor invoices and changes to contract actions, and delays in entering contract data into the JTMO management system

JTMO Contract Management. JTMO has not effectively managed intermodal shipping container leases for the DoD. We judgmentally selected and reviewed 27 JTMO contract actions for leased intermodal containers The files for many of the contract actions were missing invoices and lacked documentation confirming returned leased containers to the vendors The poorly documented contract files contributed to invoice processing delays, and contractors not being paid in a timely manner. Table 5 summarizes the problems identified.

Table 5. Results of Analysis of JTMO Contract Files

Problems	Number of Contracts
Return of Containers Uncertain	8
Missing Invoices	5
Funding Documentation Missing	1
Invoice not Certified	1

Payment to Contractors

As a result of the inadequate management controls over lease and contract administration practices, JTMO did not comply with the Prompt Payment Act (31 United States Code, section 3901 et seq). Per DoD Financial Management Regulation, volume 10, Chapter 7, "Prompt Payment Act," Federal agencies are required to make payments on time If a contractor payment is late, an interest payment is required and should be made even if a contractor does not request payment.

Eight of the JTMO contract actions we reviewed required extensions to lease periods because the containers were not returned and their locations were unknown. For the period of October 1, 1996 through August 20, 1998, JTMO incurred $65,202 in interest penalties.

Conclusion

MSC and MTMC have not established and maintained effective controls over leased intermodal shipping containers. The reorganization transferring responsibility for intermodal containers from MSC to MTMC (and its subordinate organization, JTMO) fragmented responsibilities for intermodal container management and was not well planned and coordinated. As a result, authorized positions in JTMO remained vacant and problems related to container accountability delayed payments to contractors. The JTMO and the Services have not developed a coordinated program to ensure return of leased containers to vendors

Management Comments on the Finding and Audit Response

Military Sealift Command Comments. The Military Sealift Command (MSC) disagreed with the audit conclusion that MSC did not maintain effective contract oversight for leased intermodal shipping containers. The MSC stated that references in DoD Directive 4500.37, U.S. Transportation Command (USTRANSCOM) Ref 24-1, and DoD Directive 4500.0-R, clearly assign management, tracking and control of the equipment to the Military Traffic Management Command (MTMC) The MSC stated that the finding does not accurately reflect the separate and distinct role of the MSC as the procuring agency, and MTMC as the management agency, for leased containers.

The MSC disagreed with the statement that MSC and MTMC did not adequately plan and coordinate the transfer of management and procurement responsibilities for intermodal containers to the Joint Traffic Management Office (JTMO) The MSC stated it transferred all personnel who were working on container procurements and performing related duties to JTMO The MSC stated that MSC, MTMC, and USTRANSCOM planned and coordinated the program transfer to JTMO. The MSC stated that since container management was always the responsibility of MTMC, no transfer of container management was required by the MSC.

Audit Response. The intent of DoD Directive 4500.37 is to ensure a coordinated effort in developing and adopting a container-oriented distribution system. DoD 4500 9-R-1 (paragraph J, section 7) states that MTMC, in conjunction with the MSC, will coordinate the lease and/or procurement of containers and intermodal equipment required to meet DoD container system requirements. The MSC did not effectively coordinate with the MTMC to determine which containers were lost. Instead, MSC continued to make lease payments for containers that had to eventually be bought out MSC must share responsibility for the contracts that required buyouts during Operation Uphold Democracy in Haiti, since they were responsible for contracting for the container buyouts. As stated in the report, those buyouts cost DoD at least $951,274.

Military Traffic Management Command Comments. The MTMC disagreed with the audit conclusion that the transfer of JTMO functions from the MSC was not well planned and coordinated The MTMC stated that the transfer involved moving both personnel authorizations and individuals between Navy and Army systems Efforts were made to encourage individuals to move with the transferred authorizations; but, for various reasons, new recruitment actions were required for most of the transferred spaces The MTMC also stated that the accounting process required modification to accommodate the transfer. As such, the stand-up of the JTMO evolved during the May 1996 to March 1998 time frame, and incurred normal problems not related to the planning and coordination process

Audit Response. The timeframes implemented by the MSC and MTMC to transfer staff to JTMO were unreasonably long. Although JTMO was established May 22, 1996, the MSC did not formally relinquish control of five personnel positions until February 1, 1998. Further, as stated in the report, Phase II of the JTMO consolidation did not start until October 1, 1997. The JTMO was understaffed far beyond the 129-day average for Army civilian positions in the Washington, DC area. Because of understaffing, the JTMO did not have enough personnel to effectively match and certify invoices. As a result, the JTMO experienced administrative backlogs and complaint letters from contractors concerning late payments.

Recommendations, Management Comments, and Audit Response

C. We recommend that the Commander, Military Traffic Management Command:

1. Staff the Joint Traffic Management Office Intermodal Equipment Division to meet workload demands or obtain contractor support to augment current staffing.

Management Comments. The Military Traffic Management Command concurred, stating that as of April 1999, 23 individuals were working in the Joint Traffic Management Office Intermodal Container Division and that action on this recommendation is complete.

2. Establish baseline schedules and performance goals for the Joint Traffic Management Office for certifying and processing invoices for leased intermodal container contracts, updating databases and maintaining contract files, and track actual performances.

Management Comments. The Military Traffic Management Command partially concurred. The Military Traffic Management Command stated the Defense Finance and Accounting Service already has goals to ensure prompt payment of contracts. Further, the Joint Traffic Management Office has established procedures to ensure files are complete and invoices are paid in a timely manner. The Military Traffic Management Command added that additional goals and tracking reports are not needed, and, in fact, are counter-productive to effective personnel utilization The Military Traffic Management Command stated that no additional actions are planned

Audit Response. The Military Traffic Management Command comments are partially responsive We request that the Military Traffic Management Command provide additional comments in response to the final report that identify the newly established procedures for ensuring timely payment of invoices.

3. Develop and implement procedures to track leased containers and to provide for their return to vendors.

Management Comments. The Military Traffic Management Command concurred, stating that their Asset Management System II was implemented in August 1998. This system tracks leased containers; therefore, the Military Traffic Management Command stated that the action was complete.

Audit Response. The Military Traffic Management Command comments are not responsive According to MTMC officials, the Asset Management System II will not physically track containers back to the vendors. We request that the Military Traffic Management Command provide additional comments in response to the final report on the tracking of leased containers back to the vendors.

4. **Request that the Commander, U.S. Transportation Command convene the Joint Intermodal Container Working Group to develop guidelines to define joint responsibilities of the Joint Traffic Management Office and the Services for intermodal container accountability, particularly during contingency operations.**

Management Comments. The Military Traffic Management Command concurred, stating that a copy of the draft report was provided to the U.S. Transportation Command; therefore, the Military Traffic Management Command stated that the action is complete.

Audit Response. The Military Traffic Management Command comments are partially responsive. We request the Military Traffic Management Command provide more specific comments in response to the final report. The Military Traffic Management Command should formally request that the U.S. Transportation Command convene the Joint Intermodal Container Working Group to develop the recommended guidelines.

D. Screening Equipment Requirements

For 42 contract actions valued at about $10.3 million, DoD organizations did not screen inventories of DoD or other Federally-owned equipment prior to awarding contracts to lease equipment. The inventories were not screened because contracting officers did not ensure that screenings had been completed. As a result, DoD organizations may have incurred unnecessary costs by leasing equipment that may have been available from other DoD or Federal agencies.

Screening Guidance. Federal Acquisition Regulation, subpart 8.001, "Priorities for Use of Government Supply Sources," requires agencies to satisfy requirements for supplies and services from sources in descending order of priority. The first two sources cited are agency inventories and excess inventories from other agencies. FAR, section 8.1102(a)(4), states that before preparing solicitations to lease vehicles, contracting officers should obtain written certification from the General Services Administration (GSA) advising the organization that GSA cannot furnish the vehicles.

Title 41, section 101-43, of Code of Federal Regulations, "Federal Property Management Regulations," requires that Government agencies, to the maximum practicable, fulfill their requirements for property and obtain excess personal property from other Federal agencies as a priority means of fulfilling their requirements Federal agencies should use GSA supply schedules to determine the availability of excess personal property.

Screening Equipment Requirements. Contracting officers relied on the requiring organizations to screen their requirements against equipment inventories and generally did not require written certification that screening was performed. We determined that the only one contract action, valued at $603,234, was screened against inventories of available Government equipment FAR 8.002(c), states that agencies shall satisfy requirements for leased motor vehicles in accordance with FAR 8.11. No screening was performed for leased items on 42 actions valued at about $10.3 million. Table 5 identifies 42 unscreened contract actions by DoD Components.

Table 5. Unscreened Contract Actions

	Contract Actions	Total Value
Army	10	$ 3,404,540
Navy	22	4,280,907
Air Force	4	1,449,198
Marine Corps	5	942,225
DoD	1	214,917
Total	**42**	**$10,291,787**

The 42 contract actions included the following three contract actions for leased vehicles.

- Delivery order M67001-94-D-0003-0022, awarded by the Facilities Management Department, Camp LeJeune, Marine Corps Base, North Carolina, on October 23, 1996, for $98,820 to lease 36 cargo vans for 12 months from Balva Financial Corporation.

- Delivery order M67001-94-D-0004-0015, awarded by the Facilities Management Department, Camp LeJeune, Marine Corps Base on October 18, 1996, for $35,856 to lease 12 compact vehicles for 12 months from Merchants Rent-A-Car.

- Delivery order DABT10-95-D-0019-0132, awarded by the Transportation Division, Ft. Benning, Georgia., on April 26, 1996, for $38,777 to lease 8 passenger vehicles and 1 truck for 63 days from Armada Vehicle Rental.

See Appendix D for details on the other 39 unscreened contract actions.

Conclusion

DoD organizations may have incurred unnecessary costs because they did not screen DoD and Federally-owned vehicle inventories and other equipment prior to leasing equipment. The Service Acquisition Executives should issue guidance that requires contracting officers to obtain written certifications from organizations requesting leases that other Government sources have been screened, when practical.

Recommendation, Management Comments, and Audit Response

D. We recommend that Service Acquisition Executives issue guidance that requires contracting officers to obtain written certification with requests to lease equipment to certify that the requirements were screened against the General Services Administration (vehicles) or inventories of Federally-owned excess equipment.

Army Comments. The Army concurred, but stated it would be more efficient for the DoD to implement the recommendation through an amendment to the DFARS rather than each Department issuing separate instructions.

Audit Response. The Army comments are not responsive. The intent of the recommendation is to promote sound decision making rather than add new rules and regulations. The Service Acquisition Executives are the appropriate level to take this action. We request that the Army reconsider its position on the recommendation in response to the final report.

Navy Comments. The Navy concurred with the recommendation and issued guidance which requires that no new contracts be awarded, or existing contracts extended until applicable screening has been completed, and written certification is provided to the contracting officer.

Air Force Comments. The Air Force did not comment on the recommendation. We request that the Air Force provide comments in response to the final report.

Appendix A. Audit Process

Scope

For sample contract actions, we reviewed documentation and interviewed contracting officers and other personnel responsible for defining contract requirements to determine whether:

- the contract action was for leased equipment, and
- a lease versus buy analysis was properly prepared and approved for each contract for leased equipment that was required more than 60 days.

DoD-Wide Corporate Level Government Performance and Results Act (GPRA) Goals. In response to the GPRA, the Department of Defense has established 6 DoD-wide corporate level performance objectives and 14 goals for meeting these objectives. This report pertains to achievement of the following objective and goal.

> **Objective:** Fundamentally reengineer the Department and achieve a 21st century infrastructure. **Goal** Reduce costs while maintaining required military capabilities across all DoD mission areas. **(DoD-6)**
>
> **General Accounting Office High Risk Area.** The General Accounting office (GAO) has identified several high risk areas in the DoD. This report provides coverage of the Defense Contract Management high-risk area.

Methodology

Use of Computer-Processed Data. We relied on computer-processed data from the DoD Contract Action Data System to identify the universe and audit sample of contract actions for leased equipment. Although we did not perform a formal reliability assessment of the computer-processed data, we determined that the contract numbers, award dates, and contracting organizations for the contract actions reviewed generally agreed with the computer processed data However, 86 (36.3 percent[1]) of the 237 sample contract actions were incorrectly coded as leased equipment, as shown in the following table.

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[1] This raw sample percentage does not generalize to the universe

Table 6. Miscoded Sample Contract Actions by DoD Component

	Number Miscoded	Total Value
Army	42	$13,434,190
Navy	21	4,744,977
Air Force	17	2,988,112
Marine Corps	3	397,704
Other DoD Components	3	939,633
Total	**86**	**$22,504,616**

The actions were coded incorrectly because of data entry errors or misinterpretations of the statement of work by contracting personnel.

Universe of Contract Actions. According to the DoD Contract Action Data System, the total number and value of contract actions over $25,000 for leased equipment were 2,283 actions, and $310,749,532, between October 1, 1995, and February 28, 1997. This universe was adjusted to exclude:

- contract actions for leased communication equipment that were reviewed during prior audits by the Inspector General, DoD,
- classified contract actions, and
- contract actions that deobligated funds.

The adjusted universe was 1,557 actions valued at about $163 million. The contracting organizations for those actions were clustered into 85 geographical regions.

Leased Equipment Sample Selection. The adjusted universe was stratified into 32 regions, consisting of 1,295 actions valued at about $146.8 million. The total value of the contract actions for those 32 regions represented about 90 percent of the value of the $163 million universe, and 83 percent of the original number of 1,557 actions comprising the 85 geographical regions. The audit sample selected from the limited audit universe consisted of 237 actions totaling about $69.1 million. The sample consisted of 33 Federal supply classes of equipment, such as special industry machinery, vehicles and trailers, and office machines.

Sampling Purpose. The statistical sampling plan estimated errors in contract actions for leased equipment. The errors included contract awards for leased equipment without the proper lease purchase analysis. The sample results provided data that evaluated the number of errors, percent of the population in error, and total dollars involved in the unsupported actions.

Sampling Design. A stratified sample was designed by contract action dollar amount to project the number of actions in error and dollar amount associated with those errors. The sample contained 237 contract actions from the population of 1,295. Of the 237, 45 sample items were a census stratum from all contract actions in the population above $500,000. To integrate the six strata, weights accounting for the different strata sizes were applied in the statistical analysis. However, 19 sample items were lost and could not be located by the contracting organizations, and another 86 contract actions were coded incorrectly at the contract site. The 19 sample contract actions that could not be found were assumed to have no errors. The impact from this assumption is to lower the percent in error, but this assumption should have little or no impact on the number in error or dollar projections. Therefore, the statistical projections and audit conclusions provide greater latitude to the DoD.

Confidence Interval Table. The estimates in the table in Appendix B were calculated with a 90 percent individual confidence. This means, for example, that we expect the Miscoded Contract Actions 90 percent confidence interval (between $43.2 million and $53.6 million) to include the true population value nine times out of 10, other things being equal. The best single value for the projection is halfway between these values, or $48.4 million. Since there are 10 projections, each with a 1 in 10 chance of not including the true value in its interval, we are substantially less confident the true value falls within the confidence interval for all 10.

Use of Technical Assistance. Members of the Quantitative Methods Division, Office of the Assistant Inspector General for Auditing, DoD, assisted in the development of the statistical sampling methodology, the selection of the sample items, and the projection of the audit sample results to the limited audit universe to determine the audit results.

Audit Type, Dates, and Standards. We performed this economy and efficiency audit from July 1997 through October 1998, in accordance with auditing standards issued by the Comptroller General of the United States, as implemented by the Inspector General, DoD. Accordingly, we included a review of management controls considered necessary

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

Management Control Program

DoD Directive 5010.38, "Management Control Program," August 26, 1996, requires DoD organizations to implement a comprehensive system of management controls that provides reasonable assurance that programs are operating as intended and to evaluate the adequacy of the controls.

Scope of Review of the Management Control Program. We reviewed the adequacy of management controls over leasing equipment at DoD contracting offices. Specifically, we examined management controls over compliance with laws and regulations when leasing equipment at 86 DoD contracting offices We also reviewed the adequacy of management's self-evaluation of management controls at each organization that we visited.

Adequacy of Management Controls. We identified management control weaknesses as identified by DoD Directive 5010.38. Specifically, DoD organizations had not implemented adequate management controls to ensure that valid lease purchase analyses were prepared when required and that contracts for capital leases were properly funded Further, the Military Sealift Command and the Military Traffic Management Command did not maintain effective oversight of contracts for leased intermodal shipping containers. In addition, DoD organizations did not ensure existing inventories of DoD or Federally-owned equipment were screened prior to leasing Recommendations A 1., A.2., B.1., B.2., C.1., and C.2. will assist in correcting the weaknesses. A copy of the report will be provided to the senior official responsible for management controls in DoD, as well as the Army, the Navy, and the Air Force.

Adequacy of Management's Self-Evaluation. The DoD organizations included in this audit did not identify the performance of lease purchase analysis or procedures for leasing equipment as an assessable area and, therefore, did not identify or report the material control weaknesses identified by the audit. DoD organizations identified contract management as part of an assessable unit. However, DoD organizations did not identify the specific material management control weaknesses identified by the audit because their evaluations covered much broader areas.

Summary of Prior Coverage

There have been four audits during the past 5 years that addressed contracts for leased equipment.

General Accounting Office

General Accounting Office, Report No. NSIAD 97-159, "Defense Satellite Communications: Alternative to DoD's Satellite Replacement Plan Would Be Less Costly," July 16, 1997.

General Accounting Office, Report No. NSIAD 94-48, "Military Satellite Communications: DoD Needs to Review Requirements and Strengthen Leasing Practices," February 24, 1994.

Inspector General, DoD

Inspector General, DoD, Report No. 96-102, "Acquisition of Replacement Aircraft for Model VC-137 Aircraft," April 29, 1996

Inspector General, DoD, Report No. 93-161, "Leased Base Communications Equipment at Naval Air Station, Oceana," August 24, 1993.

Appendix B. Statistical Sampling Methodology

Sampling Plan

Sampling Purpose. The statistical sampling plan estimated errors in leased equipment contract actions. The errors were contract awards made without proper analysis before lease agreement. The sample results provided data to evaluate the number of errors, percent of the population in error, and total dollars involved in the unsupported actions.

Universe Represented. The audit involved CONUS urgent contract actions for the period of October 1, 1995 (FY 96) through (the first 5 months of FY 97) February 28, 1997 from 32 regions of the country with 90 percent of lease contract dollars. The population contained 1,295 lease agreements for total of $146 million.

Sampling Design. A stratified sample was designed by lease agreement dollar amount to project the number of actions in error and dollar amount associated with those errors. The sample contained 237 lease contracts from the population of 1,295 Of the 237, 45 sample items were a census stratum from all contract actions in the population above $500,000 To integrate the six strata, weights accounting for the different strata sizes were applied in the statistical analysis.

However, some sample items were not located in the audit. Lease savings for 19 lease contract actions could not be determined For the analyses on savings from invalid contract actions, these sample items were assumed to have no errors The impact from this assumption is to lower the percent in error, but this assumption should have little or no impact on the number in error or dollar projections. Therefore, the statistical projections and audit conclusions provide greater latitude to the DoD.

Confidence Interval Table. The values in the following table represent the number of errors, percent of errors, and total dollars involved with improper lease equipment contract actions

Confidence Interval and Statistical Projections For Leased Equipment Contract Actions – Oct (FY 96) – Feb (FY 97)

	90 Percent Confidence Interval		
	Lower Bound	Point Estimate	Upper Bound
Invalid Lease Contract Actions			
Errors In Population	37	65	94
Percent In Error	2.9	5.1	7.2
Total Dollars Covered By Contract Actions With These Errors (Millions)	$6.39	$9 36	$12.33
Savings From Invalid Contract Actions			
Errors In Population	37	65	94
Percent In Error	2.9	5.1	7.2
Total Dollars Saved By Contract Actions With These Errors (Millions)	$2 05	$6.19	$10.32
Miscoded Contract Actions			
Errors In Population	380	450	521
Percent In Error	29.3	34.8	40.2
Total Dollars Covered By Contract Actions With These Errors (Millions)	$43.24	$48 43	$53.61
Lease Contract Actions With No Analysis			
Errors In Population	257	320	383
Percent In Error	19.8	24.7	29.6
Total Dollars Covered By Contract Actions With These Errors (Millions)	$32.60	$37.54	$42.48
Lease Contract Actions With Improper Analysis			
Errors In Population	168	223	278
Percent In Error	13.0	17.2	21.5
Total Dollars Covered By Contract Actions With These Errors (Millions)	$16.94	$21.11	$25.27

Confidence Interval Statement. With 90-percent confidence, the population of improper lease equipment contract actions for FY 96 and part of FY 97 had errors in the specific analysis from each lower bound to each upper bound respectively. However, the point estimate was the most likely amount in error.

Appendix C. Performance of Lease Purchase Analyses

Purchasing Office	Contract Action	Total Value	Valid Lease	Lease Purchase: Analysis Required	Lease Purchase: Analysis Performed	Lease Purchase: Analysis Performed IAW DoDI 7041.3
Army						
Aberdeen Proving Ground	DAAD05-93-D-7011-0059	$ 752,005	Yes	Yes	No	N/A
Army Garrison, Alaska	DAHC76-95-C-0043-P00002	120,000	Yes	Yes	Yes	No
Army Garrison, Hawaii	DAHC77-96-C-0027	716,514	Yes	No	N/A	N/A
Army Research Laboratory	DAAL01-96-P-0968	46,727	Yes	Yes	Yes	Yes
Atlanta Contracting Center	DAKF11-96-D-0002-0001	395,339	Yes	Yes	Yes	No
Contracting Command, Europe – Deployed Cell	DAJA77-96-M-7213	31,500	Yes	Yes	Yes	Yes
Eighth U.S. Army	DAJB03-96-P-1391	38,365	Yes	Yes	No	N/A
Engineer District – Omaha	DACW45-96-F-0004-P00001	521,123	Yes	Yes	Yes	No
Engineer District – Philadelphia	DACW61-96-L-0005	254,324	Yes	Yes	Yes	No
Engineer District – Portland	DACW57-96-M-0568	41,881	Yes	No	N/A	N/A
Engineer District - Walla Walla	DACW68-96-M-3515	74,650	No	Yes	No	N/A
Engineer Waterways Station	DACW39-95-C-0003-P00003	33,564	Yes	Yes	Yes	Yes
	DACW57-96-C-0020	1,175,942	Yes	No	N/A	N/A
	DACW57-96-C-0038	90,147	Yes	Yes	Yes	No
	DACW57-96-M-0684	86,512	Yes	No	N/A	N/A
	DACW68-96-M-3777	33,358	Yes	No	N/A	N/A
Fort Benning	DABT10-95-D-0019-0132	38,777	Yes	Yes	Yes	No
Fort Bliss	DABT51-97-F-0040	197,967	Yes	Yes	No	N/A
Fort Bragg	DAKF40-96-F-1314	69,822	Yes	Yes	No	N/A
Fort Hood	DAKF48-91-D-0056-0078	103,002	Yes	Yes	Yes	Yes
Fort Irwin	DAKF04-97-C-0003	496,100	Yes	No	N/A	N/A
	DAKF04-96-M-0524	32,900	Yes	No	N/A	N/A
Fort Lewis	DAKF57-97-F-0114	87,728	Yes	Yes	Yes	No
	DAKF57-92-C-0072-P00016	55,350	No	Yes	Yes	No
	DAKF57-96-M-1760	40,749	Yes	No	N/A	N/A
Fort Stewart	DAKF10-96-P-1386	44,375	Yes	Yes	Yes	No
	DAHC76-96-P-1423	61,060	Yes	Yes	Yes	No
	DAHC76-96-P-1527	47,498	Yes	No	N/A	N/A
	DAJB03-93-D-0088-0415	1,774,591	Yes	Yes	Yes	Yes

Purchasing Office	Contract Action	Total Value	Valid Lease	Lease Purchase: Analysis Required	Lease Purchase: Analysis Performed	Lease Purchase: Analysis Performed IAW DoDI 7041.3
	DAKF48-91-D-0056-0077	25,751	Yes	Yes	Yes	No
	DAKF48-97-M-0039	27,600	Yes	Yes	Yes	Yes
	DAJA77-96-A-7002-C002	32,500	Yes	Yes	Yes	Yes
	DAJA77-96-M-7025	25,024	Yes	Yes	Yes	Yes
	F11623-96-A-T010-C007	31,249	Yes	Yes	Yes	Yes
	F11623-96-A-T010-C010	28,422	Yes	Yes	Yes	Yes
	DABT10-94-C-0078-P00008	177,319	Yes	Yes	Yes	No
	DABT10-96-C-0026	225,736	Yes	Yes	Yes	No
Madigan Army Medical Center	DADA13-95-C-0004-P00007	29,480	Yes	Yes	No	N/A
	DADA10-95-F-4774	86,317	Yes	Yes	No	N/A
Medical Command, Central	DADA10-97-F-0009	28,600	Yes	Yes	No	N/A
Medical Research Acquisition Activity	DAMD17-95-C-5062-P60003	51,715	Yes	Yes	Yes	No
	DAJA02-95-D-0080-14001407	63,281	Yes	Yes	Yes	Yes
	DAJA02-96-F-0039	137,213	Yes	Yes	No	N/A
	DAJA02-96-F-0434	42,854	Yes	Yes	No	N/A
Regional Contracting Office – Seckenheim	DAJA02-96-M-0847	28,255	Yes	No	N/A	N/A
	DAJA02-96-M-2477	146,009	Yes	No	N/A	N/A
	DAJA02-96-M-6399	75,918	Yes	No	N/A	N/A
Regional Contracting Office – Wiesbaden	DAJA22-96-M-0692	28,257	Yes	Yes	No	N/A
Tripler Army Medical Center	DADA16-97-P-0614	52,907	Yes	Yes	Yes	No
U.S. Southern Command	USZA22-96-C-0041-P00002	10,214,917*	Yes	Yes	Yes	Yes
William Beaumont Army Medical Center	DADA09-94-D-0015-P00002	35,764	Yes	Yes	Yes	Yes
Navy						
Air Station – Pensacola	N00204-97-F-K008	326,132	Yes	Yes	No	N/A
Air Warfare Center - China Lake	N68936-94-C-0086-P00005	1,936,235	Yes	No	N/A	N/A
Air Warfare Center – Orlando	N61339-96-F-0051	108,320	Yes	Yes	No	N/A
Facilities Eng Cmd – Norfolk	N62470-95-F-2863-P00005	58,320	Yes	Yes	Yes	No
Facilities Engineering Command – New York	N33191-94-D-7480-0041	37,605	Yes	Yes	Yes	No
Fleet & Industrial Supply Center – Bremerton	N00406-94-C-4200-P00007	1,247,070	Yes	Yes	Yes	No

Purchasing Office	Contract Action	Total Value	Valid Lease	Lease Purchase: Analysis Required	Lease Purchase: Analysis Performed	Lease Purchase: Analysis Performed IAW DoDI 7041.3
	N00406-94-C-4183-P00001	216,840	No	Yes	Yes	No
	N00406-95-C-4133-P00002	180,576	No	Yes	No	N/A
	N00406-96-C-4048	238,464	Yes	Yes	No	N/A
	N00406-96-C-4087	80,350	Yes	Yes	No	N/A
	N00406-96-M-X846	35,947	Yes	Yes	Yes	No
	N00406-97-F-AC24	603,234	Yes	Yes	Yes	No
	N00406-97-M-D610	63,600	Yes	Yes	No	N/A
	N68836-96-F-0204	59,129	Yes	Yes	No	N/A
	N68836-96-F-0535	92,039	Yes	Yes	No	N/A
	N68836-97-F-0082	40,823	Yes	Yes	No	N/A
	N68836-97-F-0938	44,305	Yes	Yes	No	N/A
Fleet & Industrial Supply Center – Japan	F62562-95-D-9014-4LM5	115,248	Yes	Yes	Yes	Yes
	N61119-96-F-0526	117,131	Yes	Yes	Yes	Yes
Fleet & Industrial Supply Center – Kings Bay	N46450-95-D-0015-P00002	399,000	Yes	Yes	Yes	No
Fleet & Industrial Supply Center – Long Beach	N00123-93-D-0237-P00012	3,003,289	Yes	Yes	No	N/A
Fleet & Industrial Supply Center – Norfolk	N00189-94-D-0386-0022	32,632	Yes	Yes	Yes	No
	N00189-96-F-B426	95,732	Yes	Yes	No	N/A
	N00189-96-M-CN61	99,750	Yes	Yes	No	N/A
Fleet & Industrial Supply Center – Norfolk Ship	N00181-96-D-0040-0001	107,440	Yes	Yes	No	N/A
Fleet & Industrial Supply Center – Pearl Harbor	N00604-96-C-0029	571,209	Yes	Yes	Yes	No
Fleet & Industrial Supply Center – San Diego	N00244-94-D-5109-0043	26,880	Yes	Yes	No	N/A
	N68246-96-M-0304	25,815	Yes	No	N/A	N/A
Fleet & Industrial Supply Center – Washington	N00600-92-C-0226-P00012	251,751	No	Yes	Yes	No
	N00600-94-L-0771-P00004	38,496	Yes	Yes	No	N/A
	N00600-95-C-2502-P00009	244,961	No	Yes	No	N/A
Fleet & Industrial Supply Center – Jacksonville	N68836-96-F-0126	452,954	Yes	Yes	No	N/A

Purchasing Office	Contract Action	Total Value	Valid Lease	Lease Purchase: Analysis Required	Lease Purchase: Analysis Performed	Lease Purchase: Analysis Performed IAW DoDI 7041.3
	N00033-90-C-3055	280,000	Yes	Yes	Yes	Yes
	N62387-94-C-3078-P00019	132,328	Yes	Yes	No	N/A
	N62387-94-C-3081-P00014	147,423	Yes	Yes	No	N/A
	N62387-94-C-3092-P00010	41,605	Yes	Yes	Yes	Yes
	N62387-94-C-3105-P00020	27,567	Yes	Yes	No	N/A
	N62387-94-D-3009-P00005	80,365	Yes	Yes	No	N/A
Military Sealift Command	N62387-95-D-3009-P00004	100,000	Yes	Yes	No	N/A
	N62387-95-D-3009-P00007	174,110	Yes	Yes	No	N/A
	N62387-95-D-3010-P00007	794,368	Yes	Yes	No	N/A
	N62387-95-D-3010-P00007	816,983	Yes	Yes	No	N/A
	N62522-96-C-1003	74,610	Yes	Yes	Yes	No
	N00204-95-F-L079	208,377	Yes	Yes	No	N/A
	N00204-97-F-D002	211,119	Yes	Yes	No	N/A
	N33191-93-C-7821-P00008	56,838	Yes	Yes	Yes	Yes
	N33191-95-D-7345	347,463	No	Yes	No	N/A
	N68171-94-D-A013-P00002	128,965	No	Yes	No	N/A
	N62467-94-C-E335-P00005	1,103,020	Yes	Yes	Yes	Yes
	N68931-95-C-8363-P00006	201,960	Yes	Yes	Yes	No
Public Works Center - Norfolk	N00187-96-M-8172	45,045	Yes	Yes	Yes	Yes
Public Works Ctr - Jacksonville	N68931-94-C-E335-P00005	1,103,020	No	Yes	No	N/A
Regional Contracting Center – Naples, Italy	N68171-94-D-A057-P00002	164,072	No	Yes	No	N/A
Research Laboratory	N00173-96-P-2637-P00001	41,184	No	Yes	No	N/A
Surface Warfare Ctr - Indian Head	N00174-96-C-0078	277,584	Yes	Yes	Yes	No
Air Force						
Air Logistics Center – Sacramento	F04699-95-C-0034-P00001	70,320	Yes	Yes	No	N/A
Air Logistics Center – Warner Robins	F33600-95-D-0039-Q631	137,745	Yes	Yes	Yes	Yes
	F34650-96-C-0002	43,080	No	Yes	Yes	No
	F34650-96-F-0037	562,333	Yes	Yes	No	N/A
Air Logistics Command – Oklahoma City	F34650-96-F-0041	601,724	Yes	Yes	No	N/A

Purchasing Office	Contract Action	Total Value	Valid Lease	Lease Purchase: Analysis Required	Lease Purchase: Analysis Performed	Lease Purchase: Analysis Performed IAW DoDI 7041.3
	F34650-97-F-0053	641,911	Yes	Yes	No	N/A
	F34650-97-F-0054	513,447	Yes	Yes	No	N/A
	F34650-97-M-0360	67,525	Yes	Yes	Yes	Yes
	F04666-95-C-0009	274,746	Yes	Yes	Yes	Yes
Beale Air Force Base	F04666-95-C-0011	484,088	Yes	Yes	Yes	Yes
	F04666-95-C-0011-P00005	99,504	Yes	Yes	Yes	Yes
Bolling Air Force Base	F49642-96-F-0042	65,843	No	Yes	Yes	No
Eglin Air Force Base	F08651-92-C-0001-P00011	53,511	Yes	Yes	Yes	No
Eielson Air Force Base	F65503-94-D-0014-5002	75,715	Yes	Yes	Yes	No
Falcon Air Force Base	FA2550-96-F-0007	326,905	Yes	Yes	Yes	Yes
Goodfellow Air Force Base	F41614-96-F-0007	157,100	Yes	Yes	No	N/A
Gunter Annex, AL	F01620-91-D-0003-590202	601,056	Yes	Yes	No	N/A
Hurlburt Field	F08620-97-F-5008	46,513	Yes	Yes	No	N/A
Lackland Air Force Base	F41636-95-D-0006-5002	50,603	Yes	Yes	Yes	Yes
	F41636-96-M-8124	27,600	Yes	Yes	Yes	No
Langley Air Force Base	F44600-95-C-0014-P00002	38,002	Yes	Yes	Yes	No
	F44600-95-C-0014-P00005	38,002	Yes	Yes	Yes	No
	F01620-91-D-0003-590201	200,351	Yes	Yes	No	N/A
	F01620-91-D-0003-597902	691,173	Yes	Yes	No	N/A
	F01620-91-D-0003-88501	49,473	Yes	Yes	No	N/A
	F09607-96-C-L001	68,772	Yes	No	N/A	N/A
Moody Air Force Base	F09607-96-C-LL02	196,465	Yes	No	N/A	N/A
Offutt Air Force Base	F25600-96-F-5007	914,736	Yes	Yes	No	N/A
	F25600-97-F-5015	829,162	Yes	Yes	No	N/A
	F25600-97-M-5008	40,000	Yes	Yes	No	N/A
Pacific Air Forces	F62562-94-D-9014-RA50	387,856	Yes	Yes	Yes	Yes
Patrick Air Force Base	F08650-93-C-0022-P00012	40,684	Yes	Yes	No	N/A
	F41612-95-C-0015-P00007	75,684	Yes	Yes	Yes	Yes
Sheppard Air Force Base	F41612-96-M-0033	25,048	Yes	Yes	No	N/A
Tyndall Air Force Base	F08637-95-C-7003-P00006	45,777	Yes	Yes	No	N/A
U.S. Air Forces, Europe	F61521-95-D-5007-5017	152,226	Yes	Yes	Yes	Yes
	F62562-94-D-9014-RA1H	205,585	Yes	Yes	Yes	Yes
	F62562-94-D-9015-RA50	59,554	Yes	Yes	Yes	Yes
Yokota Air Base, Japan	F62562-94-D-9014-6152	74,011	Yes	Yes	No	N/A

Purchasing Office	Contract Action	Total Value	Valid Lease	Lease Purchase: Analysis Required	Lease Purchase: Analysis Performed	Lease Purchase: Analysis Performed IAW DoDI 7041.3
Marine Corps						
Camp Lejeune	DAHC94-94-D-0003-MS28	80,323	Yes	Yes	Yes	Yes
	M67001-94-D-0003-0022	98,820	Yes	Yes	Yes	No
	M67001-94-D-0004-0015	35,856	Yes	Yes	Yes	No
Camp Pendleton	M00681-94-D-0008-0003	532,800	No	Yes	Yes	No
	M00681-95-D-0011-0003	274,749	No	Yes	Yes	No
Marine Corps Logistics Base - Albany	M67004-96-D-0007-0001	41,496	Yes	Yes	Yes	No
Total		**$46,664,115**	**Yes 136/*$42.9***	**135/*$41.5***	**73/*$24.1***	**33/*$16.6***
			No 15/ *$3.7*	**16/ *$5.1***	**62/*$17.4***	**40/ *$7.5***
			N/A		**16/ *$5.1***	**78/*$22.5***

*The correct value of this contract action is $214,917. The amount shown was incorrectly entered in the DD 350 database. As a result, the total value of all actions is $36,664,115 ($46,664,115 less $10,000,000)

Appendix D. Examples of Contract Actions and Capital Leases for Leased Equipment

Army Organizations

Director of Contracting, Fort Lewis, Washington

Contract Modification: DAKF57-92-C-0072-P00016
Awarded: January 1, 1996
Value $55,350
Item Leased: Aerial Bucket Trucks
Contractor: Pacific Utility Equipment, Seattle, Washington

Details The modification funded the lease of two aerial bucket trucks for the fourth option year (October 1, 1995 through September 30, 1996) for the Directorate of Public Works. The contracting office competitively awarded the basic fixed-price contract for the lease of the two trucks on January 18, 1992, for 50 months (August 1, 1992 through September 30, 1996) at a total cost of $307,500. The contract period consisted of a base period of 2 months and four, 1-year option periods. The costs to lease the trucks were $3,550 and $2,600 per month for the 50 months, including contractor-provided vehicle maintenance and operator training. The installation awarded the long-term lease contract because a Government-owned bucket truck had become inoperable, and the month-to-month lease of a replacement truck was considered less economical. The purchase of a replacement bucket truck at an estimated cost of $110,000 would have been more economical than leasing replacement trucks; however, the Army Forces Command did not have Other Procurement, Army, funds for a replacement truck Also, the Directorate of Public Works estimated a 30-month procurement lead time for the Army Tank-Automotive Command to procure a replacement vehicle. The contracting office had no documentation to verify that the Director of Public Works unsuccessfully attempted to obtain procurement funds for a replacement vehicle prior to exercising the option periods in the contract. In July 1996, the Director of Contracting rejected a request from the Director of Public Works for the solicitation of a follow-on contract for the lease a bucket truck for 4 years The director stated that a 4-year lease would not qualify for an operating lease in accordance with OMB Bulletin 91-02. A lease purchase analysis showed the purchase of a truck for $125,000 was more economical than a 4-year lease. He stated that his office would solicit a 1-year lease after Public Works provided adequate evidence that appropriate funds had been requested to purchase a truck. The director also suggested that Public Works consider leasing the truck with GSA and separately purchasing the bucket.

Conclusion. The Army could have saved more than $175,000 by purchasing a replacement bucket truck in 1992 rather than leasing the two bucket trucks through March 1997. Also, the contract to lease the two trucks qualified as a capital lease because the present value of the lease payments over the 50 months was more than 90 percent of the acquisition cost of the bucket trucks. Accordingly, the contract should have been funded with Other Procurement, Army, funds rather than Operations and Maintenance funds The use of the wrong funds may have resulted in a potential Antideficiency Act violation that should be investigated in accordance with DoD Financial Management Regulation 7000.14-R, volume 14, "Administrative Control of Funds and Antideficiency Act Violations "

Corps of Engineers District, Walla Walla, Washington

Contract: DACW68-96-M-3515
Awarded: February 21, 1996
Value: $74,650
Item Leased: Truck-Tractors
Contractor Trent Inc , Portland, Oregon

Details: The district awarded this fixed-price purchase order to lease four truck-tractors for periods that ranged from 24 to 39 weeks with 25,000 to 40,000 miles per vehicle. The district needed the truck-tractors to pull trailers carrying juvenile fish from hatcheries to various release sites in Idaho, Washington, and Oregon. The contract price included maintenance and mechanical repair of the trucks, including tire repair The truck-tractors were needed on an annual recurring basis. The district did not attempt to lease the trucks from GSA and did not prepare the lease purchase analysis required by FAR 7.4 and DFARS 207.4 The analysis was required because the period of the lease was greater than 60 days and an annual recurring requirement. The contracting officer stated she was unaware of the requirement for the analysis The estimated purchase price for one truck was $121,180

Conclusion The district should prepare a lease versus buy analysis prior to awarding any future contracts to lease trucks for fish transportation. Potential additional costs that the Army may have incurred by the district leasing the trucks for the recurring requirement could not be determined.

Army Medical Research Acquisition Activity, Fort Detrick, Maryland

Contract Modification: DAMD17-95-C-5062-P60003
Awarded: March 1, 1995
Value: $51,714
Item Leased: Cellular Imaging System
Contractor: Becton Dickinson Cellular Imaging, San Jose, California

Details: The modification funded the first option year (March 1, 1996 through February 28, 1997) of the lease. The basic contract for the lease of the imaging system was a sole-source contract awarded on March 1, 1995, for 5 years (a base year period and four 1-year option periods). The system was the only piece of equipment that met the minimum needs of the Government. The contract contained an option to purchase the system at any time and apply 100 percent of the lease payments to the purchase price. The total value of the basic contract was $405,625 (about $6,760 per month for the 60 months). The organization awarded the long-term lease to support pathology investigators in the Department of HIV Prevention at the Walter Reed Army Institute of Research. A lease purchase analysis prepared by the requiring organization showed the purchase price of the equipment was $278,000 According to contracting office personnel, the system was leased because capital investment funds were not available to purchase the imaging system. However, no documentation was available to verify that the requiring organization unsuccessfully attempted to obtain capital investment funds for an imaging system. On June 14, 1996, the contract was terminated for the convenience of the Government because the research effort that required the system was terminated. The cumulative lease payments at that time totaled $108,160.

Conclusion: The contract to lease the cellular imaging system for 5 years qualified as a capital lease because it contained a bargain price purchase option. The present value of the lease payments over the life of the lease would have exceeded 90 percent of the acquisition cost. Accordingly, the contract should have been funded with capital investment funds rather than Research, Development, Test and Evaluation operating funds. The use of the wrong funds may have resulted in a potential of the Antideficiency Act violation that should be investigated in accordance with DoD Financial Management Regulation 7000.14-R, volume 14

Navy Organizations

Navy Fleet and Industrial Supply Center, Puget Sound, Washington

Contract Modification. N00406-95-C-4133-P00002
Awarded. July 25, 1996
Value $180,576
Item Leased: Manlifts
Contractor. Coursey Equipment Company, Inc., Denver, Colorado

Details: The modification funded the first option year (July 31, 1996 through July 30, 1997) on the lease of four manlifts. The contract office noncompetitively awarded the basic, fixed-price contract for the manlifts on September 14, 1994, in response to a requirement from the Puget Sound Naval Shipyard. The basic contract was a 3 year lease (a 1-year base period and two option years) with a total value of $541,728 (about $3,762 per month per manlift) and included an option to purchase the manlifts. The contracting officer did not obtain or prepare a lease purchase analysis before awarding the basic contract or exercising the option, as required by FAR, subpart 7.4, and DFARS, subpart 207.4, and could not explain why an analysis was not completed On July 30, 1997, the contracting officer exercised the option to purchase the manlifts for $419,781 and applied lease payments totaling $247,389 towards the purchase price The total amount of funds obligated to lease the equipment for 2 years and to purchase the equipment was $533,544.

Conclusion The Navy incurred additional costs of more than $113,763 ($533,544 less $419,781) by leasing rather than purchasing the four manlifts in 1995. Furthermore, the contract to lease the equipment for 3 years qualified as a capital lease because it included bargain price purchase option Accordingly, the lease should have been funded with Shipyard capital investment funds rather than operating funds. The use of the wrong funds may have resulted in a potential of the Antideficiency Act violation that should be investigated in accordance with DoD Financial Management Regulation 7000.14-R volume 14

Contract Modification N00406-94-C-4183-P00001
Awarded. October 20, 1995
Value: $216,840
Item Leased: Forklift Trucks
Contractor: Hyster Sales Company, Seattle, Washington

Details: The modification funded the first option year (October 21, 1995 through October 20, 1996) of the lease of six, 6,000-pound trucks, five, 15,000-pound trucks, and four, 20,000-pound trucks for the Puget Sound Naval Shipyard The basic contract for the lease of the 15 trucks was awarded on August 17, 1994, for 3 years (a base year period and two 1-year option periods), and included an option to purchase the forklift trucks The total value of the 3-year lease was $650,520. Preventive maintenance of the trucks was included in the lease price. The center awarded the lease contract because the Naval Sea Systems Command withheld capital investment funds needed to purchase the trucks in FY 1993. Contracting officials did not obtain a lease buy analysis from the requiring organization prior to awarding the contract, as required by FAR 7 4, and DFARS 207 4. The acquisition cost of the trucks in 1994 would have been $638,832 On July 20, 1997, the Navy exercised the option to purchase the 15 forklift trucks for $367,262. The Navy received credit for $271,570 (50 percent of the cumulative lease payments) towards the purchase price.

Conclusion: The Navy could have put funds of over $200,000 ($910,402 total payments less $638,832 purchase price less $71,570 for the estimated cost of maintenance) to better use by purchasing the forklift trucks in 1994 rather than awarding the basic contract and exercising the options to lease the equipment. Also, the 3-year lease qualified as a capital lease because it included a bargain price purchase option and the present value of the lease payments over the lease life exceeded 90 percent of the acquisition cost of the trucks. Accordingly, the lease should have been funded with shipyard capital investment funds rather than operating funds. The use of the wrong funds may have resulted in a potential Antideficiency Act violation that should be investigated in accordance with DoD Financial Management Regulation 7000.14-R, volume 14.

Contract Modification: N00406-94-C-4200-P00007
Awarded: November 14, 1996
Value: $1,247,070
Item Leased: Manlifts
Contractor: Coursey Equipment Company, Denver, Colorado

Details: The modification funded the second option year (November 15, 1996, through November 14, 1997) of a lease of ten, 60-foot manlifts, eight, 80-foot manlifts, and three, 100-foot manlifts. The basic contract that was awarded on September 14, 1994, was a noncompetitive 8a set-aside contract to lease the manlifts for the Puget Sound Naval Shipyard's recycle program for a 1-year base period and two, 1-year option periods at a total cost of $3,741,210, including maintenance. The purchase price of the manlifts was $2,862,291. The contract to lease the manlifts also contained a purchase option. The lease purchase analysis stated that the manlifts should be leased because of projected usage fluctuations in the sizes and quantities of manlifts, the lack of qualified mechanics to provide maintenance, and shipyard capital investment funds were not available to procure the manlifts.

Conclusion: The contract to lease the 21 self-propelled manlifts for 32 months was a capital lease that should have funded with capital investment funds. The lease payments over the life of the lease were more than 90 percent of the fair market value of the manlifts at the inception of the lease and the lease contract contained a bargain price option. The use of the wrong funds may have resulted in a potential Antideficiency Act violation that should be investigated in accordance with DoD Financial Management Regulation 7000.14-R, volume 14.

Contract N00406-96-C-4048
Awarded: November 21, 1995
Value: $238,464
Item Leased: Shaft Induction Heating System
Contractor: Pillar Industries, Menomonee Falls, Wisconsin

Details: The contract leased a shaft induction heating system for 12 months (June 13, 1996 through June 12, 1997), and included an option to purchase the system. The heating system was leased to replace the existing system on the U.S.S. Lincoln The heating system heats the propeller shaft to 1200 degrees or more to relieve stress after completion of welding and repair work. Because of a lack of capital investment funds, the system was leased. The lease provided the Navy an option to purchase the induction system at any time during the lease period for 85 percent credit towards the purchase price of a heat induction system. Effective August 8, 1997, through modification P00005, the Navy exercised the option to purchase the heating system for $23,380 (purchase price of $228,900, less credit of $205,519 for lease payments)

Conclusion: The contract to lease the shaft induction heating system was a capital lease that should have funded with shipyard capital investment funds rather than operating funds The lease payments over the life of the lease were more than 90 percent of the fair market value of the heating system at the inception of the lease and the lease contract contained a bargain price purchase option. The use of the wrong funds may have resulted in a potential Antideficiency Act violation that should be investigated in accordance with DoD Financial Management Regulation 7000.14-R, volume 14.

Navy Fleet and Industrial Supply Center, Washington, District of Columbia

Contract Modification: N00600-92-C-0226-P00012
Awarded: November 14, 1996
Value: $251,751
Item Leased: Nuclear Imaging System
Contractor: Picker International, Bedford Heights, Ohio

Details: Modification P00012, funded the lease and maintenance of a Nuclear Scintillation Triple Headed Spect Capable Gamma Camera, for the Nuclear Medicine Clinic at the National Naval Medical Center during the period of October 1, 1996, through July 19, 1997. The basic contract to "lease to own" the system was competitively awarded on June 25, 1991, and covered 5 years (a base year period and four 1-year option periods The total value of the 5-year lease at inception was $1,487,628 ($233,532 for the base year and $313,524 for each option year). The lease price included camera maintenance. A lease purchase analysis prepared prior to award of the lease determined that purchasing the equipment and providing maintenance was $340,500 less than leasing the equipment. The contracting officer awarded the lease because procurement funds to purchase the imaging system were not available, and because rapidly changing technology might render the cameras obsolete in 3 to 5 years. However, no documentation was available to verify that Navy officials unsuccessfully attempted to obtain procurement funds to purchase the imaging system. On October 1, 1997, the Navy took possession of the camera after making total payments of $1,629,234.

Conclusion: The Navy incurred additional costs of $825,630 ($1,629,234 total payments less $803,604 acquisition cost at inception of lease) by leasing instead of purchasing the equipment. Also, the 5-year lease of the imaging system qualified as a capital lease because ownership of the equipment transferred at the end of the lease term and the present value of the lease payments over the 5 years exceeded 90 percent of the acquisition cost. Accordingly, the lease contract should have been funded with Other Procurement, Navy funds. The use of the wrong funds may have resulted a potential Antideficiency Act violation that should be investigated in accordance with DoD Financial Management Regulation 7000.14-R, volume 14.

Contract Modification N00600-94-C-2502-P00009
Awarded: December 6, 1995
Value. $244,961
Item Leased: Security System
Contractor: ADT Security Systems Mid-South, Inc., Springfield, Virginia

Details: The modification funded the lease of an intrusion detection system for Naval Sea Systems Command (NAVSEA) offices in five buildings in Crystal City, Virginia, for the period October 1, 1994 through September 30, 1995. The basic contract to lease the security system was a sole-source contract awarded on September 29, 1994, for 3 years (a base year commencing October 1, 1994, and two options years) and had a total value of $731,124 ($235,688, $242,168, and $253,268 for the respective 1-year periods). The sole source justification stated that ADT Security Systems "was the only source of supply for the components and maintenance." The lease price included maintenance, operator training, 24-hour monitoring, and upgrade conversions as necessary. The contracting officer stated a lease purchase analysis was not completed in accordance with FAR, subpart 7.4, and DFARS, subpart 207.4, because the NAVSEA never considered purchasing the equipment for several reasons. The reasons included uncertainty about how long NAVSEA would occupy the buildings and the building leases prohibiting tenants from making capital improvements. Neither the contracting officer nor NAVSEA obtained a purchase price for the system, and no documentation was available to verify that the GSA and the building owners considered the security systems to be capital improvements under the terms of the building lease.

Conclusion: The sole-source justification was not supported and the requiring organization did not demonstrate that leasing the system was the less costly alternative. Potential additional costs incurred as a result of entering into the sole-source contract to lease the system could not be determined because the purchase price and other competitive offers were not available.

Naval Regional Contracting Center, Naples, Italy

Contract Modification: N68171-94-D-A013-P00002
Awarded: November 1, 1995
Value: $128,965
Item Leased: Commercial Vehicles
Contractor: Budget Rent-A-Car, Doha, Qatar

Details. The modification funded the second option year (November 1, 1995 through October 31, 1996) of an indefinite quantity contract for the lease of sedans, cargo vans, passenger vans, and four wheel drive vehicles in Qatar The basic contract was competitively awarded on January 1, 1994, for 3 years (a base period of 12 months and two 1-year option periods that combined covered November 1, 1993 through October 31, 1996) and had a total value of $422,735. The line items in the contract listed estimated requirements for various vehicles for daily, weekly and monthly rates. Contractor-provided vehicle maintenance was included in the lease prices. The contracting center did not obtain purchase prices for the vehicles and did not obtain or prepare a lease purchase analysis in accordance with FAR, subpart 7.4, and DFARS, subpart 207.4, although the period covered by the lease was more than 60 days The contracting officer stated the analysis was not prepared because most of the vehicles would be leased for a few days at a time. However, the contracting office, which retained contract administration responsibilities, could not provide data showing what vehicles were actually leased under the contract or how long they were leased.

Conclusion: The contracting office has not provided sufficient evidence to show that the 3-year lease was most economical option. The contracting office should not award any future contracts without performing a lease purchase analysis and maintaining records on the actual vehicle requirements under the contract.

Contract Modification: N68171-94-D-A057-P00002
Awarded: September 1, 1996
Value: $164,072
Item Leased: Commercial Vehicles
Contractor: Budget Rent-A-Car, Manama, Bahrain

Details: The modification funded the second option year (September 1, 1996 through August 31, 1997) of an indefinite quantity contract for the lease of sedans, cargo vans, passenger vans, and four-wheel drive vehicles in Bahrain. The basic indefinite quantity contract was competitively awarded on September 1, 1994, for one base year and two option years (September 1, 1994, through August 31, 1997) and had a total value of $490,216. The contract identified estimated quantities of various vehicles for daily, weekly, or monthly rates. Contractor-provided vehicle maintenance was included in the lease prices. The contracting center did not obtain a purchase price for the vehicles and did not prepare a lease purchase analysis, although the lease was for more than 60 days The contracting officer did not believe an analysis was required because individual vehicles would generally be leased for a few days at a time. However, the contracting office, which retained contract administration responsibilities, did not maintain records on the vehicles leased under the contract.

Conclusion: The contracting office cannot show that the 3-year lease was the more economical alternative. The contracting office should not award any future contracts without performing a lease purchase analysis.

Naval Research Laboratory, Washington, District of Columbia

Contract Modification: N00173-96-P-2637-P00001
Awarded: August 6, 1996
Value: $32,304
Item Leased: Traveling Wave Tubes and a Spectrum Analyzer
Contractor: Continental Resources, Inc., Beltsville, Maryland

Details: The modification extended the lease of three traveling wave tubes and a spectrum analyzer from March 14, 1996 through August 14, 1996, and increased the contract value to $41,184. The laboratory awarded the basic purchase order on February 6, 1996, to lease the equipment for 1 month (February 19, 1996 through March 18, 1996) at a cost of $8,880. The contracting officer awarded the purchase order sole-source without preparing a justification and approval for other than full and open competition, as required by FAR 6.304. Modification P00001 was issued 5 months after the end of the basic performance period because laboratory personnel continued to use the equipment for tests in the high power microwave facility without informing the contracting office of the continuing requirement. The equipment was leased because capital investment funds were not available to purchase the equipment. On August 8, 1996, the laboratory issued purchase order N00173-96-F-1462 to Logimetrics Incorporated for $154,536 to purchase the four wave tubes. On January 6, 1998, the laboratory issued purchase order N00173-98-F-0388 to Hewlett Packard Company for $54,547 to purchase a spectrum analyzer.

Conclusion: NRL should have purchased the equipment or negotiated a lease with a purchase option before awarding the basic contract, or purchased the equipment before the extending the basic performance period. The Navy Research Laboratory incurred potential additional costs of $41,184 by leasing the traveling wave tubes.

Naval Facilities Engineering Command, Sigonella, Italy

Contract. N33191-95-D-7345
Awarded: September 28, 1995
Value: $337,737
Item Leased: Commercial Vehicles
Contractor: Europcar Interrent Lease, Rome, Italy

Details: The contract leased 25 sedans, 1 cargo van, and 5 passenger vans for a 1-year base period (October 1, 1995 through September 30, 1996) and two 1-year option periods (October 1, 1996 through September 30, 1998) for Naval Facilities Engineering Command organizations in Italy. The total value of the 3-year contract, which was competitively awarded, was $1,152,319. The lease price included contractor-provided vehicle maintenance. The requirement for the vehicles was recurring and the contract was preceded by another leased vehicles contract. The contracting officer did not obtain purchase prices for the vehicles and did not require a lease purchase analysis to be completed in accordance with FAR, subpart 7.4, and DFARS, subpart 207.4, prior to awarding the contract

Conclusion: The Naval Facilities Engineering Command awarded the contract without determining that leasing the vehicles was the least costly alternative. Sufficient information is not available to determine whether the Navy incurred additional costs. The contracting office should not award any future contracts without performing a lease purchase analysis.

Navy Public Works Center, Jacksonville, Florida

Contract Modification N68931-94-C-E335-P0005
Awarded: November 13, 1995
Value: $1,103,020
Item Leased: Steam Plant
Contractor: Nationwide Boiler, Inc., Fremont, California

Details: The modification obligated funds to cover the lease of a steam plant for the period of December 1, 1995 through November 30, 1996, for the Navy Public Works Center. The contracting office competitively awarded the basic fixed-price contract for the lease of the steam plant on November 4, 1994, for 5 years (December 1, 1994 through November 30, 1999) at a total cost of $5,206,200. The contract period consists of a 1-year base period and four 1-year option periods. The plant provides steam to the Naval Air Station, Jacksonville, 365 days per year. The lease cost includes contractor-provided operation and maintenance of the steam plant. The operation of the plant includes two personnel on day shift and one person per successive 8-hour shifts The contracting officer did not require preparation of a lease purchase analysis in accordance with FAR, subpart 7.4, and DFARS, subpart 207.4, because the old steam plant had failed and an urgency existed The contracting officer also did not determine whether the lease was an operating or capital lease.

Conclusion: The requiring organization did not show that leasing the equipment was the less costly alternative. Potential additional costs incurred are indeterminable. Before the option year ends, the Navy should obtain a purchase price for the steam plant and perform a lease purchase analysis. The Navy should also determine whether the 5-year lease of the steam plant is a capital lease and whether a potential Antideficiency Act violation exists that should be investigated in accordance with DoD Financial Management Regulation 7000.14-R, volume 14.

Air Force Organizations

11th Contracting Squadron, Bolling Air Force Base, Washington, District of Columbia

Delivery Order: F49642-96-F-0042
Awarded. September 16, 1996
Value $65,843
Item Leased: Copying System
Contractor: OCE-USA, Inc., Arlington, Virginia

Details: The delivery order leased an OCE-Bruning 9876 copying system for a 1-year base period (September 26, 1996 through September 25, 1997) and four 1-year option periods (September 26, 1997 through September 25, 2001). The total value of the 5-year lease was $260,043. The lease price included contractor-provided maintenance and installation. The contract, which was a sole-source award, included a lease-to-purchase plan Under the lease-to-purchase plan, the Air Force will own the copier if it is leased for 5 years. Previously, the squadron leased a copier for 7 years. The lease purchase analysis listed the purchase price as $103,000. The contracting officer believed the Air Force made a mistake by leasing rather than purchasing the copier.

Conclusion: The Air Force incurred additional costs of at least $147,043 ($260,043 less $103,000 less a 5-year maintenance allowance of $10,000). Also, the contract to lease the copying system for 5 years was a capital lease because ownership would transfer at the end of the lease term and the present value of the lease payments over the lease life would have exceeded 90 percent of the acquisition cost. Accordingly, the contract should have been funded with procurement funds rather than operations and maintenance funds. The use of the wrong funds may have resulted in a potential Antideficiency Act violation that should be investigated in accordance with DoD Financial Management Regulation 7000.14-R, volume 14.

Oklahoma City Air Logistics Center, Tinker AFB, Oklahoma

Contract F34650-96-C-0002
Awarded: August 16, 1995
Value: $43,080
Item Leased: Hi-Reach Truck
Contractor Machinery Inc., Oklahoma City, Oklahoma

Details: The contract was for the lease of a hi-reach truck for 3 years (a base year period from October 29, 1995 through October 28, 1996) and two option years (October 29, 1996 through October 28, 1998). The lease price was $43,080 for the base period, $40,200 for the first option year, and $37,200 for the second option year The contract did not contain a lease to buy option. The lease price included contractor-provided maintenance and repair parts. The leased truck replaced a Government-owned 1972 model hi-reach truck that was condemned and removed from service in December 1993 The center performed an incomplete lease purchase analysis in March 1995 that identified the purchase price for a new truck to be $112,177. The center awarded the lease that obligated operations and maintenance funds because it did not have the procurement funds to purchase the truck. On April 22, 1996, Warner Robins Air Logistic Center purchased a new truck which cost $97,005.

Conclusion: The Air Force may have incurred additional costs of about $35,000 ($43,080 lease cost for base period less $6,860 [$96,045 acquisition cost divided by 14 years] less estimated maintenance costs of $1,220) by not purchasing the equipment initially. Also, the contract to lease the truck qualified as a capital lease that should have been funded with procurement funds because the present value of the lease payments for the 3 years would have exceeded 90 percent of the acquisition cost of a new truck. The use of the wrong funds may have resulted in a potential Antideficiency Act violation that should be investigated in accordance with DoD Financial Management Regulation 7000.14-R, volume 14.

Eglin Air Force Base, Florida

Contract Modification. F08651-92-C-0001-P0011
Awarded: October 1, 1995
Value: $ 53,511
Item Leased: Blood Analyzer
Contractor: Colter Corporation, Kennesaw, Georgia

Details: The modification funded the fourth option year of lease to purchase contract for an automated whole blood analyzer for the Eglin Air Force Base Regional Hospital. The basic contract leased the analyzer for a 1-year base period and four 1-year option periods (October 1, 1991 to September 30, 1996) at $44,380 per year or $221,900 for the 5 years, including a trade-in rebate of $36,150. The lease price included the reagents (chemicals) to conduct about 57,000 tests per year and equipment maintenance. The base funded the contract with operations and maintenance funds At the end of the 5 years, the analyzer becomes the property of the Air Force for $1. The price to purchase the analyzer was $105,365, plus reagent costs of $86,228 and maintenance costs of $70,485 for a total of cost of $225,928, including a trade-in rebate of $36,150.

Conclusion: Although it was less costly to lease rather than purchase the analyzer, the contract qualified as a capital lease because ownership transferred to the Air Force after the lease at a bargain price. Accordingly, the contract should have been funded with procurement funds. The use of the wrong funds may have resulted in a potential Antideficiency Act violation that should be investigated in accordance with DoD Financial Management Regulation 7000.14-R, volume 14.

Sacramento Air Logistics Center, McClellan AFB, California

Contract Modification. F04699-95-C-0034-P00001
Awarded: October 1, 1996
Value: $70,320
Item Leased: Mobile Wellness Van
Contractor: Lifeline Shelter Systems Inc , Groveport, Ohio

Details: This modification funded the first option year (October 1, 1996 through September 30, 1997) of a lease of a mobile wellness van for the Health and Wellness Center at McClellan AFB. The basic contract for the lease was awarded on September 1, 1995, for a 1-year base period and a 1-year option period (October 1, 1995 through September 30, 1997) at a total cost of $125,990. The contract, which was financed with operations and maintenance funds, included an option to purchase the van. Contractor-provided maintenance was included in the lease price. The purchase price of the van was $128,645 Through modification P00002, effective August 22, 1997, the center exercised the option to purchase the van for $1.

Conclusion: The lease to purchase contract was a capital lease that should have been funded with procurement funds. The ownership of the van was transferred to the Air Force, the purchase of the van was at a bargain price, and the lease payments over the life of the lease were more than 90 percent of the fair market value of the van at the inception of the lease. The use of the wrong funds may have resulted in a potential Antideficiency Act violation that should be investigated in accordance with DoD Financial Management Regulation 7000.14-R, volume 14.

Marine Corps Organizations

Marine Corps Base, Camp Pendleton, California

Delivery Order. M00681-95-D-0011-0003
Awarded: December 1, 1995
Value $274,749
Item Leased: Portable Chemical Toilets
Contractor: Porta-John of America, Utica, Michigan

Details The delivery order funded the lease of portable chemical toilets for the period of December 1, 1995 through September 30, 1996, for the Base Property Control Division, Camp Pendleton. The basic contract, which was competitively awarded on November 16, 1994, was for 5 years (a 1-year base period and four 1-year option periods that covered August 1, 1994, through July 31, 1999). The total value of the 5-year lease was $1,833,566. The contract leased 940 toilets for a full year and other toilets (standard and handicapped) by the month and week Contractor-provided maintenance was included in the contract price. The toilets were for various locations at Marine Corps Base, Camp Pendleton and Fallbrook Naval Weapons Station. The contracting officer did not complete a lease purchase analysis in accordance with FAR, subpart 7.4, and DFARS, subpart 207 4 because a purchase source was not identified. However, the contract file did not document the market research that was performed The audit determined that several sources exist for the purchase of portable and other types of chemical toilets.

Conclusion: The contracting officer awarded the contract without a lease purchase analysis showing that the 5-year lease was the less costly alternative. The Marine Corps may have incurred additional costs by the lease arrangement

Delivery Order. M00681-94-D-0008-0003
Awarded: October 16, 1995
Value: $532,800
Item Leased: Landfill Equipment
Contractor: Equipment Leasing Company, Barstow, California

Details The delivery order funded the second option year (October 1, 1995 through September 30, 1996) of the lease of two tractors, two scrapers, one compactor, one motor grader, and one water truck for use at two landfills on Camp Pendleton. The basic contract for the lease of equipment was competitively awarded on March 2, 1994, for 30 months (a base period of 6 months and two, 1-year option periods) at a total price of $1,892,614. Contractor-provided maintenance was not included in the lease cost. The base did not screen inventories of excess DoD-owned equipment prior to leasing the equipment and did not obtain purchase prices for the equipment or prepare a lease purchase analysis in accordance with FAR, subpart 7.4 and DFARS, subpart 207.4 The contracting officer was aware of the requirements but believed leasing the equipment was less costly.

Conclusion: The Marine Corps has not demonstrated that leasing the equipment was a sound business decision Additional costs that the Marine Corps may have incurred could not be determined.

Appendix E. Equipment Eligible for Screening

	Item	Contract No. and Modification	Amount	Screened
Army	Computers	USZA22-96-C-0041	$ 214,917	No
	Containers, Trailer	DAJB03-96-P-1391	38,365	No
	Copiers	DABT51-97-F-0040	197,967	No
	Copiers	DACW45-96-F-0004	521,123	No
	Copiers	DAJA02-96-F-0039	137,213	No
	Copiers	DAJA02-96-F-0434	42,854	No
	Copiers	DAJB03-93-D-0088-0415	1,774,591	No
	Copiers	DAKF40-96-F-1314	69,822	No
	Copiers	DAKF57-97-F-0114	87,728	No
	Modular Tents	DAKF04-97-C-0003	496,100	No
	Vehicles	DABT10-95-D-0019-0132	38,777	No
Navy	Containers, Cargo	N62522-96-C-1003	74,610	No
	Copier	N68836-96-F-0204	59,129	No
	Copier	N68836-97-F-0082	40,823	No
	Copier	N68836-97-F-0938	44,305	No
	Copiers	N00174-96-C-0078	277,584	No
	Copiers	N00204-95-F-L079	208,377	No
	Copiers	N00204-97-F-D002	211,119	No
	Copiers	N00204-97-F-K008	326,132	No
	Copiers	N00406-97-F-AC24	603,234	Yes
	Copiers	N61339-96-F-0051	108,320	No
	Copiers	N68836-96-F-0535	92,039	No
	Forklifts	N00244-94-D-5109-0043	26,880	No
	Forklifts	N00406-94-C-4183-P00001	216,840	No
	Shipping Container	N00033-90-C-3055	280,000	No
	Shipping Container	N62387-94-C-3078-P00019	132,328	No
	Shipping Container	N62387-94-C-3081-P00014	147,423	No
	Shipping Container	N62387-94-C-3092-P00010	41,605	No
	Shipping Container	N62387-94-C-3105-P00020	27,567	No
	Shipping Container	N62387-94-D-3009-P00005	80,365	No
	Shipping Container	N62387-95-D-3009-P00004	100,000	No
	Shipping Container	N62387-95-D-3009-P00007	174,110	No
	Shipping Container	N62387-95-D-3010-P00007	794,368	No
	Shipping Container	N62387-95-D-3010-P00007	816,983	No
Air Force	Copiers	F08620-97-F-5008	46,513	No
	Copiers	F34650-96-F-0037	562,333	No
	Copiers	F34650-97-F-0054	513,447	No
	Copiers	FA2550-96-F-0007	326,905	No
Marine Corps	Portable Toilets	M00681-95-D-0011-0003	274,749	No
	Tractors & Landfill Equip	M00681-94-D-0008-0003	532,800	No
	Vehicles	M67001-94-D-0003-0022	98,820	No
	Vehicles	M67001-94-D-0004-0015	35,856	No
	Total		**$10,895,021**	

Appendix F. Report Distribution

Office of the Secretary of Defense

Under Secretary of Defense for Acquisition and Technology
  Deputy Under Secretary of Defense (Acquisition Reform)
  Deputy Under Secretary of Defense (Industrial Affairs and Installations)
  Director, Defense Logistics Studies Information Exchange
Under Secretary of Defense (Comptroller)
  Deputy Chief Financial Officer
  Deputy Comptroller (Program/Budget)
Director, Defense Procurement

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Assistant Secretary of the Army for Acquisition, Logistics, and Technology
Assistant Secretary of the Army (Financial Management and Comptroller)
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Commander, Eighth U.S Army
Commander, Army Contracting Command, Europe
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Commander, Military Traffic Management Command

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Commandant, Marine Corps
Commander, Military Sealift Command
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Commander, Materiel Command
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Unified Command

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Defense Organizations

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Non-Defense Federal Organizations and Individuals

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Technology Information Center, National Security and International Affairs Division,
  General Accounting Office

Congressional Committees and Subcommittes, Chairman and Ranking Minority Member

Senate Committee on Appropriations
Senate Subcommittee on Defense, Committee on Appropriations
Senate Committee on Armed Services
Senate Committee on Governmental Affairs
House Committee on Appropriations
House Subcommittee on National Security, Committee on Appropriations
House Committee on Government Reform
House Subcommittee on Government Management, Information, and Technology, Committee on Government Reform
House Subcommittee on National Security, International Affairs, and Criminal Justice, Committee on Government Reform

Deputy Under Secretary of Defense (Acquisition Reform) Comments

OFFICE OF THE UNDER SECRETARY OF DEFENSE

3000 DEFENSE PENTAGON
WASHINGTON DC 20301-3000

ACQUISITION AND TECHNOLOGY

13 APR 1999

MEMORANDUM FOR THE INSPECTOR GENERAL OF THE DEPARTMENT OF DEFENSE

SUBJECT: OIG - Draft of a Proposed Audit Report: Contract Actions for Leased Equipment -- 7CH-0055

Thank you for the opportunity to comment on the subject draft report on the Department's efforts in leasing equipment. The Department shares your concerns that we conduct the appropriate analysis to determine whether equipment lease or equipment purchase provides the best value.

In response to Finding A and Recommendation A.2, the Defense Acquisition University (DAU) addresses leasing in its courses, Basics of Contracting (CON 101) and Government Contract Law (CON 210). Student required readings include FAR 107.401 and 207.470. Additionally, there are lectures and a practical applied exercise in the Basics of Contracting course. Price analysis, in assessing leasing versus purchase tradeoffs, is also covered in Principles of Contract Pricing (CON 104). DAU is issuing additional direction to its instructors and staff to emphasize the audit findings and recommendations.

With respect to Recommendation B.2, we agree with the intent of the recommendation, to provide contracting officers guidance on capital lease funding requirements. However, we do not think it is appropriate for the DFARS to repeat guidance contained in another regulation. Therefore, we have opened DFARS Case 99-D012 to amend DFARS 207.4 to alert Contracting Officers of the requirements contained in DoD Financial Management Regulations 7000.14-R, Volume 4, Chapter 7, Section 070308.

The Department will continue to emphasize the importance of pursuing procurement alternatives that provide the best return on Government expenditures. We will continue to promote the tenets of acquisition reform: obtaining products and services better, faster and cheaper as a means to provide the highest level of best support to our warfighters.

Stan Z. Soloway
Deputy Under Secretary of Defense
(Acquisition Reform)

Department of the Army Comments

DEPARTMENT OF THE ARMY
OFFICE OF THE ASSISTANT SECRETARY
RESEARCH DEVELOPMENT AND ACQUISITION
103 ARMY PENTAGON
WASHINGTON DC 20310-0103

REPLY TO
ATTENTION OF
SARD-PP

18 APR 1998

MEMORANDUM FOR INSPECTOR GENERAL FOR AUDITING AGENCY ATTN. SAAG-PMO-L, 3101 PARK CENTER DRIVE, ALEXANDRIA, VA 22302-1596

SUBJECT: Draft Audit Report on Contract Actions for Leased Equipment (Project No. 7CH-0055)

This responds to recommendations A 1. D in the subject audit report involving contract actions for leased equipment.

In the audit report, you recommended Acquisition Executive for Army, Navy and Air Force require contracting officers obtain.

a. Lease purchase analyses before awarding new contracts for leased equipment or exercising future options for active contracts for leased equipment where no initial lease purchase analyses were performed, but not required

b. Written certification with requests to lease equipment to certify that the requirements were screened against the General Service Administration (vehicles) or inventories of Federally-owned excess equipment.

I support the above recommendations. However, I believe it would be more efficient for the Department of Defense staff to implement via Defense Federal Acquisition Regulation Supplement (DFARS) rather than each Department issuing separate instructions.

If you have any questions regarding this action, please contact Mr Joseph Pieper Commercial (703) 681-7559 or DSN 761-7559 or Email pieperj@sarda. army.mil.

Kenneth J. Oscar

Kenneth J. Oscar
Deputy Assistant Secretary of the Army
(Procurement)

CF
SAAG-PMO-L
SALL-IL
SAPA-ZX

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DEPARTMENT OF THE ARMY
OFFICE OF THE ASSISTANT SECRETARY
FINANCIAL MANAGEMENT AND COMPTROLLER
109 ARMY PENTAGON
WASHINGTON DC 20310-0109

REPLY TO ATTENTION OF

April 8, 1999

MEMORANDUM FOR INSPECTOR GENERAL FOR AUDITING, DEPARTMENT OF DEFENSE

SUBJECT. Draft Audit Report on Contract Actions for Leased Equipment (Project No 7CH-0055)

This is an interim response to the recommendation in the subject audit report involving contract actions for leased equipment

In the audit report, you recommended Assistant Secretaries (Financial Management and Comptroller) of the Army, Air Force and Navy investigate the 11 lease contracts under their cognizance for potential violations of the Antideficiency Act. The Army is responsible for 2 of the 11 contracts listed in the report. We have initiated preliminary investigative proceedings as required by DOD Regulation 7000.14R, Volume 14, at the major commands involved The results of these proceedings will be provided to you. Estimated date for completion of the preliminary investigation and review is August 30, 1999

If you have any questions regarding this action, please contact Ms Barbara Jefferson, commercial (703) 697-2687, DSN 227-2687 or email jeffers@hqda.army.mil

Ernest J. Gregory
Deputy Assistant Secretary of the Army
(Financial Operations)

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DEPARTMENT OF THE ARMY
HEADQUARTERS
MILITARY TRAFFIC MANAGEMENT COMMAND
5611 COLUMBIA PIKE
FALLS CHURCH, VA 22041-5050

REPLY TO ATTENTION OF

MTIR (36-2b)

15 APR 1998

MEMORANDUM FOR DIRECTOR, CONTRACT MANAGEMENT, INSPECTOR GENERAL, DEPARTMENT OF DEFENSE, 400 ARMY NAVY DRIVE, ARLINGTON, VA 22202

SUBJECT Audit Report on Contract Actions for Leased Equipment, (Project No 7CH-0055)

1 This memorandum provides the Military Traffic Management Command (MTMC) comments on Finding C "Management of Leased Intermodal Shipping Containers" of subject draft report

2 The data presented in the finding refers to four contract modifications that occurred in 1996 and 1997 prior to MTMC's Joint Traffic Management Office (JTMO) assuming full management of Intermodal Containers Thus, MTMC can not address the accuracy of statements discussed in this finding MTMC disagrees with the audit conclusion that the transfer of JTMO functions from the Military Sealift Command was not well planned and coordinated. The transfer involved movement of both personnel authorizations and individuals between Navy and Army systems Efforts were made to encourage individuals to move with the transferred authorizations; but, for various reasons, new recruitment actions were required for most spaces transferred Also, the accounting process required modification to accommodate the transfer As such, the stand-up of JTMO evolved during the May 1996 to Mar 1998 time frame and incurred normal problems not related to the planning and coordination process

3 Responses to recommendations addressed to MTMC are enclosed If additional information is needed please contact Mr Lawrence Powers, Chief of Internal Review and Audit Compliance, (703) 681-6920 or Ms Nancy Kinslow, JTMO, (703) 681-1408

FOR THE COMMANDER

Encl

J DOUGLAS FOYE
COLONEL, GS
Chief of Staff

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MILITARY TRAFFIC MANAGEMENT COMMAND (MTMC)
Comments on Recommendations Finding C
Management of Leased Intermodal Shipping Containers

Recommendation C-1 "Staff the Joint Traffic Management Office (JTMO) Intermodal Equipment Division to meet workload demands or obtain contractor support to augment current staffing " MTMC concurs As of Apr 99, 23 individuals were working in the JTMO Intermodal Container Division Action on this recommendation is complete

Recommendation C-2 "Establish baseline schedules and performance goals for certifying and processing invoices for leased intermodal container contracts, updating databases and maintaining contract files, and track actual performance " MTMC partially concurs The Defense Finance Service already has goals to assure prompt payment of contracts Also, JTMO has established procedures to ensure files are complete and invoices are paid in a timely manner Additional goals and tracking reports are not needed and, in fact, are counter productive to effective personnel utilization No additional actions are planned

Recommendation C-3 "Develop and implement procedures to track leased containers and to provide for their return to vendors " MTMC concurs MTMC Asset Management System II was implemented in Aug 98 and tracks leased containers Action is complete

Recommendation C-4 "Request that the Commander, U S Transportation Command (USTRANSCOM) convene the Joint Intermodal Container Working Group to develop guidelines to define joint responsibilities of JTMO and the Services for intermodal container accountability, particularly during contingency operations " MTMC concurs A copy of your draft report was provided USTRANSCOM Action is complete

Department of the Navy Comments

DEPARTMENT OF THE NAVY
OFFICE OF THE ASSISTANT SECRETARY
RESEARCH, DEVELOPMENT AND ACQUISITION
1000 NAVY PENTAGON
WASHINGTON DC 20350-1000

APR 1 5 1999

MEMORANDUM FOR THE DEPARTMENT OF DEFENSE ASSISTANT INSPECTOR GENERAL FOR AUDITING

SUBJECT: DODIG DRAFT AUDIT REPORT: CONTRACT ACTIONS FOR LEASED EQUIPMENT (7CH-0055)--Information Memorandum

REFERENCE: (a) Draft DODIG Report 7CH-0055 dated 10 FEB 99
(b) DOD FMR Vol. 14

Enclosure: (1) Department of the Navy Response
(2) ASN(RDA)ABM memorandum of April 9, 1999

The Department of the Navy response to reference (a) is provided at enclosure (1). We concur in principle with the recommendations.

A preliminary review for potential violation of the Antideficiency Act will be conducted as required by Reference (b). We have advised the acquisition community that contracting officers must obtain required lease purchase analyses before awarding new or extending existing contracts for leased equipment (enclosure (2)). Enclosure (2) also reemphasizes that screening for excess Government owned property is the first source of supply for filling requirements.

WILLIAM J. SCHAEFER
Deputy Assistant Secretary of the Navy
Planning, Programming, and Resources

Copy to:
FMO (31)
DASN (ABM)

Department of the Navy
Response to DODIG Draft Audit Report
Contract Actions for Leased Equipment (7CH-0055)
Dated February 10, 1999

Recommendation A.1. We recommend that the Acquisition Executives for the Army, the Navy and the Air Force require that contracting officers obtain lease purchases analyses before awarding new contracts for leased equipment or exercising future options for active contracts for leased equipment where no initial lease purchase analyses were performed, but were required.

Department of the Navy Response: Concur. We have reemphasized the requirements of Federal Acquisition Regulation Subpart 7.4 and advised contracting officers that no new contracts for leased equipment shall be awarded, and existing contracts for leased equipment for which no initial lease purchase analysis was completed shall be extended, until the contracting officer obtains the required lease purchase analysis.

Recommendation B.1. We recommend that the Assistant Secretaries (Financial Management and Comptroller) of the Army, the Navy and the Air Force investigate the contracts under their cognizance for potential Antideficiency Act violations arising from improper funding of capital leases, and if any violations of the Antideficiency Act occurred, comply with the reporting requirements in DoD Financial Management Regulation (DoD 7000.14-R), Volume 14, "Administrative Control of Funds and Antideficiency Act Violations." The Assistant Secretaries should also provide a copy of preliminary review reports, the monthly status reports on the formal investigations, and the final formal investigation reports to the IG, DoD.

Department of the Navy Response: Concur with conducting a preliminary review for a potential violation of the Antideficiency Act (ADA). The status of on-going ADA investigations within the Department of the Navy is provided to the Under Secretary of Defense(Comptroller). Recommend the DoDIG obtain this information from the Under Secretary of Defense(Comptroller) in lieu of requesting redundant reporting.

Department of the Navy
Response to DODIG Draft Audit Report
Contract Actions for Leased Equipment (7CH-0055)
Dated February 10, 1999

Recommendation D.
We recommend that the Service Acquisition Executives issue guidance that requires contracting officers to obtain certification with requests to lease equipment to certify that the requirements were screened against the General Services Administration (vehicles) or inventories of Federally-owned excess equipment.

Department of the Navy Response: Concur. We have issued guidance requiring that no new contracts be awarded, nor existing contracts extended, which require leased equipment unless a written certification that applicable screening has been completed is provided to the contracting officer.

DEPARTMENT OF THE NAVY
OFFICE OF THE ASSISTANT SECRETARY
RESEARCH, DEVELOPMENT AND ACQUISITION
1000 NAVY PENTAGON
WASHINGTON DC 20350-1000

April 9, 1999

MEMORANDUM FOR HEADS OF THE CONTRACTING ACTIVITIES
PROGRAM EXECUTIVE OFFICERS
DIRECT REPORTING PROGRAM MANAGERS

Subj: EQUIPMENT LEASE OR PURCHASE UNDER CONTRACT

The Federal Acquisition Regulation (FAR), Subpart 7.4 "Equipment Lease or Purchase" provides policy, procedures and acquisition considerations for acquiring equipment by lease or purchase. FAR 7.4 applies to the initial acquisition of equipment and the renewal or extension of existing equipment leases. Agencies are required to perform a case-by-case evaluation of comparative costs and other factors when determining whether to lease or purchase equipment. Completing the case-by-case evaluation assures good business investment decisions and may help avoid other contractual issues.

FAR subpart 8.001 "Priorities for Use of Government Supply Sources," requires agencies to satisfy requirements for supplies and services from designated sources in order of priority. If supplies are not available from within the agency, the first source of supply is excess Government-owned property from other agencies.

A recent Department of Defense Inspector General audit found that several organizations either did not perform, or did not properly perform, the lease-purchase analysis required by FAR 7.4. The audit identified instances where failure to complete the lease-purchase analysis resulted in improper funding of capital leases, a potential violation of the Antideficiency Act.

In addition, the audit found that many organizations did not screen for excess Government property as required by FAR 8.001. The Department of Defense Inspector General indicates failure to screen caused unnecessary costs to be incurred for leasing equipment that was available within the Government. Contracting officers rely on the requiring activities to perform screening but have not required certification that screening was completed.

Subj: EQUIPMENT LEASE OR PURCHASE UNDER CONTRACT

Please reemphasize the requirements of FAR 7.4 and 8.001 to your acquisition personnel. Before any new contract for leased equipment is awarded or before any existing contract is extended, the contracting officer must review the required lease purchase analysis. In addition, the contracting officer should receive a written certification that applicable screening was completed before awarding new contracts or extending existing contracts that require leased equipment.

Elliott B. Branch

Elliott B. Branch
Executive Director
Acquisition and Business Management

Copy to:
ASN(FM)
CNO
CMC

DEPARTMENT OF THE NAVY
COMMANDER MILITARY SEALIFT COMMAND
WASHINGTON NAVY YARD BUILDING 210
914 CHARLES MORRIS CT SE
WASHINGTON DC 20398-5540

REFER TO:

7000
Ser N852/ 000600

APR 8 1999

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

Subj: AUDIT REPORT ON CONTRACT ACTIONS FOR LEASED EQUIPMENT (PROJECT NO. 7CH-0055)

Ref: (a) DOD Directive 4500.37 of 2 Apr 87
(b) USTRANSCOM Ref 24-1 of 1 Sep 94
(c) DOD Directive 4500.0-R of Aug 95, pages 101-9 and 10

Encl: (1) Specific Commends on Audit Report on Contract Actions for Leased Equipment (Project No. 7CH-0055)

1. This memorandum provides the Military Sealift Command (MSC) comments on finding C "Management of Leased Intermodal Shipping Containers" of subject draft report. Additionally, enclosure (1) provides specific comments addressing particular statements in the subject report which relate to MSC.

2. MSC disagrees with the audit conclusion that MSC did not maintain effective contract oversight of contracts for leased intermodal shipping containers. References (a) through (c) clearly assign management, tracking and control of the equipment to the Military Traffic Management Command (MTMC). Finding C does not accurately reflect the separate and distinct role of MSC as the procuring agency, and MTMC as the management agency, for leased containers.

3. Furthermore, MSC disagrees with the statement that MSC and MTMC did not adequately plan and coordinate the transfer of management and procurement responsibilities for intermodal containers to JTMO. MSC transferred to JTMO all personnel who were working on container procurements and performing related program duties at MSC. MSC, MTMC and USTRANSCOM planned and coordinated the program transfer to JTMO; however, as container management was always the responsibility of MTMC, no transfer of container management was required of MSC.

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4. If you have questions concerning this response or require additional information, please contact Ms. Iris Davis at (202) 685-5978 (DSN 325-5978).

G. S. HOLDER

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SPECIFIC COMMENTS ON
AUDIT REPORT ON CONTRACT ACTIONS FOR LEASED EQUIPMENT
(PROJECT NO. 7CH-0055)

EXECUTIVE SUMMARY

The Executive Summary, **"Results,"** states that "...the Military Sealift Command and the Military Traffic Management Command (MTMC) did not maintain effective contract oversight of contracts for leased intermodal shipping containers." References (a) through (c) clearly assign the responsibility to manage, track and control the use of the equipment to MTMC alone. Finding C does not accurately reflect the separate and distinct roles of MSC and MTMC regarding management of leased containers.

FINDING C

a) **Management of Leased Intermodal Shipping containers,** paragraph one, states that:

> The ineffective oversight occurred because neither MSC or MTMC:
> - adequately staffed the organizations responsible for managing the leasing of containers, and
> - established adequate management systems to verify that leased containers were returned in accordance with contract terms.

Given the DoD mandated roles, as set forth in references (a) through (c), MSC met its mission by successfully procuring all containers, leased and purchased, when requested by MTMC. In fact, some container purchases were accomplished within an hour. Without this successful execution of MSC's assigned responsibility (i.e. procurement), often on short timeframes to support military exercises, (i.e. Restore Freedom) the DoD would not have met mission requirements.

The report points out, in the paragraph entitled **DOD Guidance,** that "...the Commander, MTMC, shall manage and monitor the status of DoD-owned , leased, and commercial intermodal surface containers while these containers are in the Defense Transportation System, other than those managed by the Military Sealift Command." None of the containers in the contracts audited under the subject report were Military Sealift Command containers. Once the containers were delivered to the Government they became part of the Defense Transportation System and became MTMC's responsibility to manage and provide appropriate oversight. It was MSC's responsibility to ensure that the contractor performed the contract and delivered the containers on time In that role we monitored delivery to the Government/MTMC.

b) **MSC Management of Intermodal Container Programs.** This heading would be more reflective of the respective roles of MSC and MTMC if "MSC" was deleted. MSC did not have responsibility for the containers after the contractor delivered the containers to the delivery point set forth in the contract.

c) **Container tracking systems.** The first sentence suggests that MSC had control problems in tracking containers. We reiterate that container tracking was not MSC's responsibility.

ENCLOSURE (1)

However, we did, on a number of occasions, raise to senior field commanders whose troops actually had the "boxes" that container tracking was inadequate.

d) **Staffing of JTMO Intermodal Equipment Division.** The first sentence states that "MSC and MTMC did not adequately plan and coordinate management and procurement responsibilities for intermodal containers to JTMO [Joint Traffic Management Office]." Again, per references (a) through (c), container management was solely MTMC's responsibility. MTMC can address the JTMO role in planning and management. MSC transferred to JTMO all personnel who were working on container procurements and related program duties at MSC. The draft report audit implies that MSC's contract files should have contained container leasing invoices Invoices are not normally part of the contract files except the final closeout invoice (see FAR 4.803 (37) and 4.804-5 (14).

e) **Conclusion.** The first sentence notes that "MSC and MTMC have not established and maintained effective controls over leased intermodal shipping containers." MSC was not given the responsibility to manage and control containers; MSC's authority extended only as far as procuring containers, hence we recommend that "MSC" be deleted from the sentence.

Department of the Air Force Comments

DEPARTMENT OF THE AIR FORCE
WASHINGTON DC

OFFICE OF THE ASSISTANT SECRETARY

14 Apr 99

MEMORANDUM FOR DoD INSPECTOR GENERAL

FROM: SAF/AQC
1060 Air Force Pentagon
Washington DC 20330-1060

SUBJECT: Air Force Response to Draft Audit Report, Project 7CH-0055, Contract Actions for Leased Equipment

My staff has reviewed subject draft report and coordinated with Air Force activities responsible for the Air Force contracts reviewed We are in agreement with recommendation B 1 and the intent of recommendation B.2 of the draft report. Our specific comments regarding actions being taken relative to those recommendations are as shown in the attachment Comments provided relative to recommendation B 1 were prepared by SAF/FM.

The recommendations contained in Sections A, C, and D of the report are not within the cognizance of the Deputy Assistant Secretary (Contracting), and no response to those recommendations is provided herein.

Questions may be directed to my action officer for this report, Ms Kathleen James. SAF/AQCP, (703) 588-7059, or email: jamesk@pentagon af mil

TIMOTHY A BEYLAND
Associate Deputy Assistant Secretary (Contracting)
Assistant Secretary (Acquisition)

Attachment
Responses to Recommendations B 1 and B 2

SAF/FM Comments to DoD(IG) Draft Report
Audit Report on Contract Actions for Leased Equipment
(Project No. 7CH-0055)

Recommendation B.1. We recommend that the Assistant Secretaries (Financial Management and Comptroller) of the Army, the Navy, and the Air Force investigate the contracts under their cognizance for potential Antideficiency Act violations arising from improper funding of capital leases, and if any violations of the Antideficiency Act occurred, comply with the reporting requirements in DoD Financial Management Regulation (DoD 7000.14R), volume 14, "Administrative Control of Funds and Antideficiency Act Violations." The Assistant Secretaries should also provide a copy of the preliminary review reports, the monthly status reports on the formal investigation, and the final formal investigation reports to the IG, DoD.

SAF/FM Management Comments: Concur.

On 14 January 1999 SAF/FM directed the 11WG/FM and AFMC/FM organizations to begin a preliminary review (P99-04) to investigate the possible improper funding of capital leases identified in the audit report. The purpose of Preliminary Review P99-04 is to determine whether a potential Antideficiency Act (ADA) violation has occurred The investigation results are presently undergoing either management or legal review All legal and management reviews should be completed, and a decision made regarding whether an ADA violation occurred, no later than 30 April 1999 Preliminary Review reports will be provided to the DoD(IG) during the audit followup process.

If an ADA violation occurred, the Air Force will comply with the reporting requirements in DoD Financial Management Regulation (DoD 7000.14R), volume 14, "Administrative Control of Funds and Antideficiency Act Violations." Monthly ADA status reports will be provided to the OSD Comptroller in accordance with reporting procedures established in volume 14. Final formal investigation reports will also be provided to the IG, DoD

SAF/AQC Comments to DoD (IG) Draft Report on Contract Actions for Leased Equipment (Project No. 7CH-0055)

Recommendation B 2. We recommend that the Director, Defense Acquisition Regulations Council amend DoD Federal Acquisition Regulation Supplement, subpart 207.4 to include capital lease and operating lease criteria contained in DoD Financial management Regulation 7000 14-R, volume 4, Chapter 7, section 070308, "Assets Under Capital Lease"

SAF/AQC Management Comments: Concur with intent of this recommendation.

DAR Case 99-D012 initiated on 24 Mar 99 and currently scheduled for review by the Defense Acquisition Regulation Council (DARC) on 21 Apr 99 recommends referencing section 070308 of the DoD Financial Management Regulation Volume 4, Chapter 7 in DFARS 207.471, rather than including the language of section 070308 verbatim. This approach is being taken because the analysis described in section 070308 is not performed by contracting officers. In addition, the position of the Director of Defense Procurement is that it is inappropriate to repeat regulatory guidance within DFARS which is contained in another DoD regulation. A copy of the proposed draft DDP Memorandum and draft DFARS 207.471 is attached.

Attachment
Proposed DDP Memorandum and draft DFARS 207 471

Audit Team Members

The Contract Management Directorate, Office of the Assistant Inspector General for Auditing, DoD, produced this report.

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