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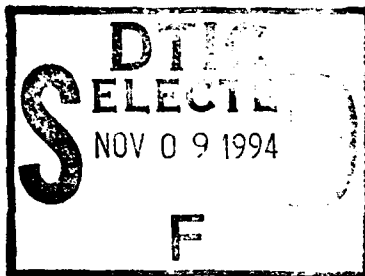
For Release on Delivery
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October 12, 1994

Testimony

Before the Subcommittee on Oversight of Government
Management, Committee on Governmental Affairs
U.S. Senate

MILITARY SEALIFT
COMMAND CONTRACTS

Contract Abuses Resulted in
Poorly Maintained Ships,
Unqualified Crews, and
Increased Cost to Government



Statement by Richard C. Stiener, Director
Office of Special Investigations



94-34786



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Mr. Chairman and Members of the Committee:

I am pleased to be here today to discuss the results of our investigation concerning the operation of nine Sealift tankers leased by the Department of Navy's Military Sealift Command (MSC) to transport jet fuel and other petroleum products to ports worldwide in support of U.S. military efforts.

MSC awarded a 5-year, fixed-price contract to operate and manage the nine tankers for \$170 million to International Marine Carriers, Inc. (IMC) in April 1990, including reimbursables for fuel, upgrades, and other costs. The contract allowed modifications that increased MSC's payments to IMC to \$256 million, as of April 1, 1994 (with another year to go on the contract).

In summary, we found numerous conditions on all nine Sealift tankers that adversely affected the condition of the ships and their ability to perform their assigned missions. We also found understaffed crews and unqualified crewmen, some of whom lacked the appropriate security clearances while others had felony records. These conditions resulted, in part, from poor contract oversight and management by MSC.¹ In addition, we found careless practices by the contracting officer during the preaward and award stages of the contract.²

CONTRACTOR'S INADEQUATE MAINTENANCE HAS CAUSED SHIPS TO DETERIORATE AND HAS ERODED MISSION CAPABILITY

The contract stipulates that the contractor is responsible for performing routine and preventive maintenance to ensure the ships' continued effective operation and preserve their condition. IMC has not fully complied with, and MSC has not enforced, the preventive maintenance requirements of the contract. As a result, the ships have deteriorated, resulting in operational deficiencies that adversely affect the safety of the ships and their ability to perform assigned missions.

MSC inspection reports documented numerous instances of unsafe operating conditions aboard the nine Sealift tankers to include leaking oil; leaking fuel lines and fuel pumps; inoperable lifesaving equipment including life boats; poorly maintained or inoperable fire stations; deteriorated, damaged, or missing railings on the ships' weather decks; and improperly stored chemicals and lubrication oil.

¹U.S. Navy/Military Sealift Command: Weak Contract Administration Led to Unsafe and Poorly Maintained Ships (GAO/OSI-94-27, August 31, 1994).

²GAO has work in progress on IMC and MSC contractor/contracting potential abuses.

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One of the most serious recurring problems noted in the MSC inspection and owners' inspection reports--that we also saw during our inspections of the ships--involved excessive oil leaks from machinery aboard the ships. For example, the Sealift Antarctic consumed more than 350 gallons of lubricating oil per day, exceeding the 75-gallons-per-day rate allowed in the contract by more than 450 percent. In addition, the Sealift China Sea consumed almost 3 times its maximum allowable rate of lubricating oil for the 1-year period that we reviewed. Since lubricating-oil expenses are reimbursable under the contract, this consumption rate added directly to the government's contract costs. Further, the oil leaks created slippery conditions and fire hazards.

Another problem--the inability to refuel ships at sea--directly affected MSC's operational capability and mission readiness during wartime and other emergencies. During Operation Desert Storm, two of the tankers (Sealift Mediterranean and Sealift Caribbean) were unable to refuel other ships because of inoperable refueling-at-sea equipment. Although MSC inspection reports indicated that the refueling-at-sea equipment on many of the tankers was frequently inoperable, MSC has only within the past year and a half begun to fund needed repairs to these systems.

Admiral Francis R. Donovan, then-Commander of the Military Sealift Command, inspected the ships during Desert Storm and ordered immediate steps to improve their condition. At MSC's direction, the contractor hired additional crew, called "wipers," to wipe up excess oil in the engine rooms and on other parts of the ships. MSC obligated \$2 million in advance--for 1992 through 1995--for the wipers. Also, beginning in August 1991, each ship underwent material condition upgrades not covered by the contract. As of April 1, 1994, these upgrades had cost MSC about \$18 million over the original \$170 million 1990 contract cost. During this time, the ships were unavailable to meet their mission objectives.

CONTRACTOR'S FAILURE TO COMPLY WITH CREWING REQUIREMENTS HAS CAUSED UNSAFE CONDITIONS

The contract stipulates that the contractor is responsible for providing qualified, MSC-approved crews of 25 persons for the safe, worldwide operations of each of the nine tankers. IMC often allowed the tankers to sail undermanned with an inexperienced crew--which potentially benefitted the contractor financially--although the government paid for a full, experienced crew.

Through its lack of contract enforcement, MSC did not always approve "key" crew members--including a ship's Master, or Captain--and allowed unqualified, inexperienced crew members to work on the ships. In one instance, in March 1992, the Sealift Caribbean discharged over 47,000 gallons of gasoline at sea. Naval investigators cited the Captain's "extremely poor judgement and complete ignorance of actions expected and required of him" as the

reason for the discharge. We determined that MSC had not approved this Captain to operate the ship.³

The contract requires that each Captain, Chief Mate, and Radio Officer undergo a background investigation and receive a secret-level security clearance. We found no record of background investigations or security clearances for the above-cited key crew members on any of the nine ships. MSC officials told us that they assumed, but had not verified, that the contractor had obtained the appropriate clearances.

Further, U.S. Coast Guard rules and regulations prohibit the contractor from hiring any crew member who has a drug conviction within 3 years prior to the date of filing an application to work on U.S. ships. Of the 658 crew members who had been employed over a 2-year period (1992 through 1993) on the 3 ships we visited, 178 had been previously convicted of felonies including assault and rape; about one-third of these convictions involved various drug violations. Two individuals were fugitives. Some had used false social security numbers and some were not U.S. citizens.

CARELESS CONTRACT ADMINISTRATION BY MSC

During our investigation, we also reviewed the preaward and award phases of the contract. We discovered that the MSC contracting officer had failed to follow generally accepted contracting practices. In particular, the contracting officer failed to conduct a preaward survey and did not question either the corporate character of IMC or its financial solvency. In addition, the contracting officer failed to assign a program manager or to provide written designation of departmental responsibilities for the program. Finally, the contracting officer failed to assign a Contracting Officer's Technical Representative (COTR) to monitor the contractor's performance, as the contract required, until 1993.

UNRESOLVED ISSUES ARE LIKELY TO FURTHER INCREASE COSTS

Due to a lack of contract management and oversight by MSC, the government has incurred at least \$25 million--and could incur an additional \$31 to \$40 million--in costs over and above the contract amount. Specifically,

- MSC knew that the ships had deteriorated under the previous contract and estimated that it would take \$3-5 million per

³In January 1994, over the Coast Guard's objection, the Department of Transportation, Office of General Counsel, determined that these ships were "public vessels" and therefore exempt from liability under the Oil Pollution Act of 1990, P.L. 101-380, 104 stat. 484. Because of this decision, no criminal liability may be lodged against IMC.

ship to reinstate the ships; yet it settled with the previous contractor for \$300,000, incurred turnover costs of \$3 million, then spent \$18 million to upgrade the 9 tankers, plus an additional \$2 million for wipers.

- IMC initiated what it deemed were "needed" repairs to the ships and then sought reimbursement from MSC for \$9.8 million based on the turnover costs and \$10 million in additional costs and upgrades. MSC reimbursed \$2.1 million of IMC's claims, but the remaining \$17.7 million in claims are in dispute. Further, MSC does not have an inventory of the ship's original equipment and has no way to determine which items were on board or the condition of those items at the time of turnover. As a result, MSC has no baseline to evaluate IMC claims.
- Recent inspections by the ships' owners indicate that an additional \$2 to \$3 million will be needed per ship to restore them to their "less wear and tear" status at the end of the lease contract.
- A January 1994 Defense Contract Audit Agency report raised additional questions concerning the reimbursable portion of the fixed-price contract. Specifically, they questioned (1) possible double billing on the costs for 32 individuals on the contract over the past 4 years, (2) an insupportable allowance of \$4 million for the cost of money, (3) overbilling the government for leasing office space, and (4) \$425,000 in the miscalculation of indirect costs.

Finally, several of the issues discussed in today's testimony are the subject of ongoing investigations by the Naval Investigative Service, the Department of Justice, the Labor Department's Office of Labor Racketeering, the Environmental Protection Agency, and the U.S. Coast Guard.

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This completes my prepared remarks. I would now welcome any comments or questions that you may have.

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