Policy and Oversight

Contract Audit Directorate

Consolidation of DoD
Contract Administration Services

Report Number PO 98-604 January 15, 1998

Office of the Inspector General
Department of Defense

INTERNET DOCUMENT INFORMATION FORM

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D. Currently Applicable Classification Level: Unclassified

E. Distribution Statement A: Approved for Public Release

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Acronyms

AAP	Army Ammunition Plants
CAS	Contract Administration Services
DCAA	Defense Contract Audit Agency
DCMC	Defense Contract Management Command
DLA	Defense Logistics Agency
DMRD	Defense Management Review Decision
G&CAS	Grant and Contract Administration Services
HHS	Department of Health and Human Services
IOC	U.S. Army Industrial Operations Command
ONR	Office of Naval Research
SUPSHIP	Supervisor of Shipbuilding, Conversion and Repair

January 15, 1998

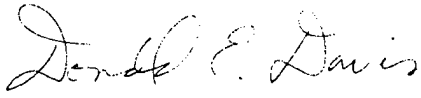
MEMORANDUM FOR UNDER SECRETARY OF DEFENSE FOR ACQUISITION AND TECHNOLOGY
DIRECTOR, DEFENSE PROCUREMENT
ASSISTANT SECRETARY OF THE NAVY (FINANCIAL MANAGEMENT AND COMPTROLLER)
DIRECTOR, DEFENSE LOGISTICS AGENCY
AUDITOR GENERAL, DEPARTMENT OF THE ARMY

SUBJECT: Evaluation Report on the Consolidation of DoD Contract Administration Services (Report No. PO 98-604)

We are providing this evaluation report for your review and comment. We conducted an evaluation in response to the then Deputy Secretary of Defense request to identify potential process and reengineering options that would lead to Defense Contract Audit Agency and Defense Contract Management Command consolidation opportunities and staffing and cost savings. We considered managment comments on a draft of this report in preparing the final report.

DoD Directive 7650.3 requires that all recommendations be resolved promptly. As a result of management comments, we deleted Recommendation 1. and revised Recommendations 2. and 3. We request additional comments from the Office of the Under Secretary of Defense for Acquisition and Technology on the revised recommendations by March 16, 1998.

We appreciate the courtesies extended to our staff. Questions on the evaluation should be directed to Mr. Wayne C. Berry, Acting Program Director, at (703) 604-8789 (DSN 664-8789). See Appendix F for the report distribution. The evaluation team members are listed inside the back cover.



Donald E. Davis
Deputy Assistant Inspector General
for Audit Policy and Oversight

Office of the Inspector General, DoD

Report No. PO 98-604 **January 15, 1998**
(Project No. 6OC-9038)

Consolidation of DoD Contract Administration Services

Executive Summary

Introduction. At the request of the then Deputy Secretary of Defense, we performed the evaluation to determine whether any consolidation opportunities exist for the Defense Contract Audit Agency and the Defense Contract Management Command. The request was made as a followup to the Commission on Roles and Missions study recommendation to consolidate those agencies.

During the evaluation, we observed that increased efficiencies, staff reductions, and cost avoidances were possible if contract administration services responsibilities of several major DoD contracting activities were transferred to the Defense Contract Management Command. We conducted this evaluation to determine whether those activities should delegate the responsibility for contract administration services to the Defense Contract Management Command.

Evaluation Objective. The objective of this evaluation was to determine whether the Defense Contract Management Command should be delegated the contract administration responsibilities retained by various DoD contracting activities. Because of the number of activities to be studied, we limited this initial evaluation to the three believed to have the greatest potential or need for consolidation, the U.S. Army Ammunition Plants; the Office of Naval Research; and the U.S. Navy Supervisor of Shipbuilding, Conversion and Repair. We will evaluate two remaining activities, the U.S. Army Corps of Engineers and the Naval Facilities Engineering Command, at a later date.

Evaluation Results. The Defense Contract Management Command is capable of performing the contract administration functions of the Army Ammunition Plants, the Office of Naval Research, and the Supervisor of Shipbuilding. Delegation of contract administration to the Defense Contract Management Command can improve the overall efficiency and effectiveness of the administration of DoD contracts.

The economies of scale and consistent application of acquisition regulations envisioned with the establishment of a single DoD contract administration organization, the Defense Contract Management Command, have not been fully achieved due to the retention of contract administration responsibility by the Army and Navy. Those benefits, one contract administration face to the contracting community, and elimination of duplicate regulations and management structures, should significantly improve the efficiency of DoD contract administration operations.

Summary of Recommendations. We recommend that the Under Secretary of Defense for Acquisition and Technology charter a joint executive-level review of the cost effectiveness of consolidating contract administration. The review members should

include representatives from the Office of the Secretary of Defense; Office of the Inspector General, DoD; Army; Navy; Air Force; and Defense Contract Management Command.

Management Comments. The Acting Deputy Under Secretary of Defense (Acquisition Reform) nonconcurred with our draft report recommendation to eliminate the Defense Acquisition Regulation Supplement 242.203(a)(i)(B), which authorizes all DoD Components, not just the Office of Naval Research, to retain contract administration for research and development with universities. Prior to the elimination of that provision, an evaluation should be conducted to examine how all DoD Components conduct administration of their contracts for research and development with universities.

The Acting Deputy Under Secretary also nonconcurred with the recommendations to transfer contract administration responsibilities for the U.S. Army Ammunition Plants; the Office of Naval Research; and the U.S. Navy Supervisor of Shipbuilding, Conversion and Repair to the Defense Contract Management Command. She commented that the evaluation lacks supporting analysis and a critical examination to substantiate that the transfers would be beneficial. Only after completion of such an analysis can a decision be made on the recommended transfers.

The Army and Navy nonconcurred with the recommendations, emphasazing that they run counter to previous study results on the appropriateness of the transfers. The Army also stated that before implementing the transfers, the issues should be jointly studied again.

The Defense Logistics Agency acknowledged that "CAS function consolidations have historically proven to save costs" but recommended that a full cost-benefit analysis be performed before a decision is made.

Part I summarizes the management comments on the recommendations, and Part III contains the complete texts of those comments.

Evaluation Response. Our evaluation focused on the need for independence in contract administration, consistent application of policy, and potential economies of scale inherent in consolidating contract administration. We did not attempt to determine the cost savings of such consolidation. The estimated amount of savings that will accrue from consolidation is dependent on the assumptions used and we believe management is in the best position to determine the cost impact. Because of management comments, we deleted the recommendation to eliminate the Defense Acquisition Regulation Supplement 242.203(a)(i)(B). The appropriateness of the provision should be reexamined if additional analyses result in a decision that the Office of Naval Research grant and contract administration responsibilities should be transferred to the Defense Contract Management Command.

Also, we deleted the draft report recommendations regarding transfer of additional contract administration responsibilities to the Defense Contract Management Command. We agree that a full analysis of the recommended changes will lend substantial credibility to implementation of the recommendations and have revised the report accordingly.

We request that the Office of the Under Secretary of Defense for Acquisition and Technology comment on the final report recommendation by March 16, 1997.

Table of Contents

Part I - Evaluation Results

Background

The then Deputy Secretary of Defense organized and chaired a Senior Advisory Group to monitor the actions taken on all recommendations made by the Commission on Roles and Missions of the Armed Forces. At an October 27, 1995, meeting of the group, the then Deputy Secretary requested that the Inspector General, DoD, identify potential process and reengineering options that would lead to Defense Contract Audit Agency (DCAA) and Defense Contract Management Command (DCMC) consolidation opportunities, staff reductions, and cost avoidances.

During our DCAA/DCMC consolidation opportunities evaluation, we determined that the potential for staff reductions, cost avoidances, and consolidation opportunities was also present in related areas. Contract administration services (CAS) processes and the evaluation of contractor price proposals are areas in which improvements or streamlining could result in cost avoidances by the DoD. Also, we observed that past studies had considered the potential for increased efficiencies, related staff reductions, and cost avoidances associated with the transfer to the DCMC of the CAS responsibilities of several major DoD contracting activities.

The DCMC was established in 1990 under the Defense Logistics Agency (DLA) to consolidate all DoD on-site contract administration into a single DoD agency. It is responsible for providing worldwide CAS to its customers and satisfies this responsibility by use of a process-oriented system. The system involves use of teams that cross business, functional, and technical boundaries. The teams provide for a seamless approach that enables them to continually select, analyze, and improve CAS processes. The CAS policies and procedures that support the DCMC implementation of uniform, DoD-wide CAS are in DLA Directive 5000.4, "Contract Management," March 6, 1995, which is aptly referred to as the "One Book." The establishment of the DCMC has generally allowed the DoD to present one face to industry in the contract administration arena.

Objectives

The objectives of the evaluation were to determine whether the DCMC is able to perform the CAS of several major DoD organizations and whether transfer of those responsibilities to the DCMC is appropriate and beneficial. These objectives fall within the purview of the request made by the then Deputy Secretary of Defense to determine whether opportunities exist for process improvement in the DCMC mission, operation, and organizational structure. See Appendix A for a discussion of our scope and methodology.

Delegation of DoD Contract Administration Services to the Defense Contract Management Command

The Army Ammunition Plants (AAP); the Office of Naval Research (ONR); and the U.S. Navy Supervisor of Shipbuilding, Conversion and Repair (SUPSHIP), with the assistance of their headquarters offices, currently retain CAS responsibilities, even though the DCMC can provide those services. This condition exists because prior studies of the SUPSHIP and AAP concluded that it was more economical and provided greater control not to separate contract administration functions from the overall operations of the organizations. Also, the ONR had specialized skills not available within the DCMC. By retaining CAS responsibilities rather than delegating them to the DCMC, the DoD is not able to achieve the economies of scale, consistent application of contract administration policies, or independence of the contract administration function envisioned by the establishment of DCMC as a single DoD contract administration organization. The arguments against delegation of CAS responsibilities to the DCMC are similar to those used at the time of formation of the DCAA in 1965. Presently, DCAA provides DoD contracting officers with all contract audit and financial advisory services. The success DCAA has had in this role could be similarly achieved by the DCMC.

Establishment of the DCMC to Consolidate DoD Contract Administration

Consolidation of DoD Contract Administration Services. The Deputy Secretary of Defense approved the Defense Management Review Decision (DMRD) 916, "Streamlining Contract Management," in 1989 to establish the DCMC within the DLA. At that time, the DLA was already incurring about three-quarters of the costs of DoD CAS, with the Military Departments incurring the remainder at various contractor plants. The DCMC began operations in 1990 with the objective to consolidate all on-site CAS at contractors' plants in a centralized organization to realize the economies of scale associated with consolidation. Responsibility assigned to the DCMC included providing worldwide CAS to support the Military Departments; other DoD Components; Federal civil agencies; and when authorized, foreign governments and others.

The goals of the DMRD 916 were to:

o consolidate all contract administration support functions under one DoD organization,

o streamline by reducing organizational layers and personnel in the CAS system,

o implement uniform CAS policy and procedures,

o present a single face to industry,

o upgrade the quality and professionalism of the CAS workforce,

o reduce overhead and payroll costs associated with contract administration, and

o preserve regulatory division between the responsibilities of the administrative contracting officer and the procuring contracting officer.

Those goals were designed to resolve various problems that had been identified within the contract administration structure. The problems concerned the use of different procedures for managing and administering contracts, the different contract administration organizations being presented to industry, a lack of adequate emphasis on professionalism in the contract administration arena, and inadequate attention being placed on contract administration that could be remedied by establishing a single activity in a single agency. Concerns with the need to reassess the numbers of Government officials present in contractor facilities and to improve management controls in contract administration were also considered.

When the DCMC was established as the centralized DoD contract administration agency, five major organizations were not included in the consolidation and retained their own CAS: the U.S. Army Corps of Engineers, the Naval Facility Engineering Command, the AAP, the ONR, and the SUPSHIP. At the time the DCMC was established, the AAP and SUPSHIP were to be reviewed for possible transfer to the DCMC within a year of its establishment. Subsequent studies were made of those organizations and are discussed in Appendix B. We limited our evaluation to the AAP, the ONR, and the SUPSHIP because we believe that those organizations have the greatest potential or need for consolidation. We will evaluate the U.S. Army Corps of Engineers and the Naval Facilities Engineering Command at a later date.

The Transfer of CAS to the DCMC

The changes in DoD since the formation of DCMC in 1990, including significant downsizing, have invalidated the conclusions of previous studies that retention of CAS responsibility by certain Army and Navy activities is efficient and effective. We determined that the DCMC is capable of performing the CAS responsibilities currently being conducted by the AAP, ONR, and SUPSHIP, and those organizations concurred with that conclusion. We reviewed the various reasons presented in prior studies and currently offered by those organizations to justify their retention of CAS responsibilities. We questioned the validity of some of the reasons and concluded that even the valid

reasons do not justify having CAS performed by other than the DCMC. The DCMC was established to provide DoD-wide CAS and should conduct all DoD CAS unless it is determined that DCMC is not capable of or is inefficient in performing the required services. Additionally, we identified the following reasons that support the transfer of CAS from AAP, ONR, and SUPSHIP to the DCMC.

o The economies of scale initially envisioned with the establishment of the DCMC can be fully realized only if all DoD CAS is delegated to that organization.

o The benefits of such consolidation are illustrated by the success of the 1965 reorganization of the DoD contract audit function under a single organization, the DCAA. The DCAA has provided a single face to industry and uniformity in audit policy throughout DoD. The establishment of the DCAA eliminated the inefficiency of duplicate infrastructures maintained by the Military Departments to manage audits and formulate policy.

o Greater independence and consistency in settling contract disagreements, disputes, and audit issues would be ensured. The intertwining of program officials with contracting officers who perform both procurement and contract administration functions is not consistent with the DMRD 916 goal of preserving regulatory division between the responsibilities of the administrative contracting officer and the procuring contracting officer. Consequently, contracting officer decisions are not made independently and, therefore, are not necessarily in the best interests of the Government. The delegation of CAS to the DCMC would provide the environment needed to ensure that adequate contracting officer independence is achieved. Too often the procuring Military Department is closely tied to the contractor providing the product or service, resulting in a loss of perspective in financial dealings with the contractor.

o The DCMC personnel are dedicated solely to CAS, whereas many AAP and SUPSHIP personnel perform CAS as only one of their duties. The DCMC representatives are generally better trained and more efficient and effective in the area of CAS because of their total dedication to the singular mission of the CAS function. The DCMC staff has specialized in the various CAS functions and, therefore, is generally more efficient due to such specialization.

o The DCMC presents a single contract administration face to industry. The use of one DoD-wide, CAS organization promotes uniformity and consistency in ongoing communications with contractors and resolution of problem areas. The uniformity of policy through use of the DCMC One Book enhances consistency with the contractor community.

o The DCMC initially employed about 24,000 employees who were located in about 140 offices within its 9 districts. FY 1997 end of the year DCMC staffing is programmed at 14,489, a 40 percent reduction to the 1990 baseline. Further reductions, to 12,402, are programmed by FY 2003, and the Quadrennial Defense Review is expected to result in even further staffing reductions. Also as part of its downsizing actions, the DCMC disestablished 7 of its 9 districts, established an international district, and decreased its contract administration offices from 140 to 81. In 1996, Program Decision

Memorandum II allowed the DCMC to slow its decline in staffing levels to help offset the addition of new workload. That work included administering contracts at privatized depot maintenance facilities and fulfilling the role as the DoD leader in implementing acquisition reforms. Also, the Military Departments had come to rely on DCMC for the workload that they used to perform in-house, and entire functions were sometimes transferred to the DCMC without any additional staffing or funding. These experiences should significantly contribute to the DCMC ability to readily meet the challenges associated with absorbing the CAS responsibilities currently retained by the AAP, ONR, and SUPSHIP.

o The existence of a single, consolidated CAS agency for all of DoD will facilitate and expedite the implementation of the many acquisition reforms planned and in process throughout the DoD. The DCMC is the lead organization for many acquisition reforms and initiatives, including the Single Process Initiative, Early CAS, Earned Value Management, and Software Surveillance.

o Further consolidation of CAS within the DCMC will facilitate ongoing standardization and centralization of contract payment processes. The Defense Finance and Accounting Service would have to resolve only the operational and policy issues of one organization. The consolidation would similarly facilitate Electronic Commerce and Electronic Data Interchange initiatives.

o The DoD CAS regulations will be streamlined and reduced. Each organization reviewed has developed its own CAS regulations or guidelines that would be eliminated with the transfer of CAS to the DCMC. The U.S. Army Industrial Operations Command, headquarters for the AAP, issued its own Supplement to the Federal Acquisition Regulation that addresses several CAS requirements. The ONR developed various grant and contract administration guides that address voucher processing, property administration, contractor purchasing system reviews, indirect cost negotiations, and grant and contract closeouts. The Naval Sea Systems Command, headquarters for the SUPSHIP, maintains a voluminous SUPSHIP operations manual for use by contract and technical personnel as a guide for field administration of contracts for ships and boats and as a contract administration tool for naval ship repair work in private contractors' plants.

Procedures for Delegating CAS to the DCMC. When delegations of CAS are made to the DCMC, discussions between the contracting office and the DCMC are usually held to determine which functions are to be delegated. The CAS delegations are made in accordance with the Federal Acquisition Regulation Subpart 42.2, "Assignment of Contract Administration," and Subpart 42.3, "Contract Administration Office Functions," and the Defense Federal Acquisition Regulation Supplement Subpart 242.2, "Assignment of Contract Administration." After agreement is reached, the specific functions being delegated are formalized in writing to prevent duplication of effort by the parties. The delegation decisions consider the flexibility provided by the Federal Acquisition Regulation and the Defense Federal Acquisition Regulation Supplement, the current workload and staffing of each of the organizations, and the confidence the delegating office placed in the DCMC office. The regulations provide sufficient flexibility to permit the Army and the Navy to

tailor the delegation of CAS responsibilities to the DCMC while ensuring that the Army and Navy maintain sufficient control to operate efficiently and to effectively meet their mission requirements.

The U.S. Army Industrial Operations Command-Army Ammunition Plants

Mission of the U.S. Army Industrial Operations Command and the Army Ammunition Plants. In 1975, the Secretary of the Army was designated the Single Manager for Conventional Ammunition. That mission is currently satisfied by the U.S. Army Industrial Operations Command (IOC), a major subordinate command of the Army Materiel Command, Alexandria, Virginia. The IOC employs about 24,000 civilians and has installations and activities in 25 states and overseas. It is responsible for producing quality munitions and large caliber weapons and for providing a full range of maintenance services for modern weapons.

The IOC headquarters is staffed with technical specialists in areas such as acquisition, engineering, environment, quality assurance, logistics management, property control, safety, and security. The headquarters office maintains three procurement divisions: the Ammunition Procurement Division, the Environmental Procurement Division, and the Government-Owned, Contractor-Operated/Facility Division.

The Ammunition Procurement Division is responsible for acquisition of ammunition to be manufactured by commercial contractors. Contractors that were awarded some of the larger contracts include Martin Electronics; Alliant Techsystems; Bulova Technologies, Inc.; and Olin Corporation. The Ammunition Procurement Division is composed of three branches and an integrated product team that was established for 120 millimeter tank ammunition. Routine contract administration for the IOC commercial contracts and the tank ammunition contract is consistently delegated to the DCMC. The IOC retains functions related to technical changes and review as well as all actions that involve funding and legal issues.

The Environmental Procurement Division is responsible for awarding and administering the contracts required in implementation of the DoD Chemical Demilitarization Program. The program involves constructing buildings, equipping the buildings with necessary chemical weapons destruction equipment, destroying the chemical weapons, and destroying the buildings themselves. The program is expected to last as long as 10 years and is currently planned to involve nine sites.

Responsibility for the construction of the buildings and contract administration during the construction phase is assigned to the U.S. Army Corps of Engineers. Once construction is completed, contract administration responsibility for the remaining parts of the contracts is retained by the IOC, which believes that CAS retention is necessary to maintain continuity and consistency for this sensitive,

long-range program. The Environmental Procurement Division also contracts for site clean-up requirements. Contract administration for the clean-up contracts is routinely delegated to the DCMC.

The Government-Owned, Contractor-Operated/Facilities Division is responsible for directing, managing, and controlling the contract planning, executing, and administering for the entire Government-Owned, Contractor-Operated AAP complex. There are 7 active and 14 inactive AAP. Civilian personnel employed at the AAP totaled 254, and military personnel totaled 21. Appendix C lists the specific AAP sites and the personnel assigned to each site. The AAP are staffed with a variety of specialists similar to those working at IOC headquarters, with no duplication of effort, however, because the roles of the AAP specialists and IOC specialists are quite different. The AAP specialists are involved in the day-to-day, on-site review of contractor operations. The IOC retains those CAS that involve resolution of audit and technical issues, funding, or the need for legal input. Other than the limited CAS functions noted, the IOC headquarters personnel are not involved with overseeing contract performance. They are primarily involved with acquisition responsibilities and IOC-wide issues, such as planning future ammunition requirements and reviewing current processes in their specialties to identify areas requiring improvement.

Army's Reasons for Retaining CAS. The AAP study conducted during 1990 and Army comments made during this evaluation addressed various reasons for the Army's retention of CAS responsibilities at the AAP. The following reasons were considered most significant. The Army achieved the 25-percent AAP staff reduction envisioned with transfer of CAS to the DCMC before a decision was made on retaining or delegating CAS to DCMC. Second, safety, environmental, and security issues present a significant potential threat, which the Army believes are best addressed by the Army's centralized ammunition management personnel. Further, non-CAS functions comprise more than half the AAP workload, and CAS and non-CAS functions are not easily separated. Lastly, the Army believes that transfer of AAP CAS to the DCMC would increase overall staffing requirements.

During the earlier AAP study, the IOC obtained estimates from AAP personnel in various positions regarding functions performed and time spent on those functions. That information was used to estimate typical percentages of CAS and non-CAS functions performed at the AAP. The AAP personnel said that CAS functions comprise about 50 percent of their total AAP efforts.

The AAP absorbed the 25-percent staff reduction, even before completion of the earlier study, and this action was a significant factor in the study recommendation and the Army decision to retain CAS at the AAP. However, that action has no effect on our current evaluation, which shows that AAP closures and further downsizing have reduced the AAP resource level from about 700 during the previous study to a current level of about 250.

The contractors and subcontractors, not AAP personnel, are responsible for implementing safety, environmental, and security requirements at the AAP. The role of the AAP personnel is generally to ensure that those requirements are adequately implemented by contractor or subcontractor personnel. The DCMC routinely provides those types of CAS services in contracts that it administers

and is able to perform the necessary CAS functions in those areas at the AAP. The DCMC can draw on a large pool of specialists and bring necessary resources to prevent potential problem areas.

Many AAP personnel perform both CAS and non-CAS functions. The prior AAP study concluded that separating the CAS functions and assigning them to the DCMC would increase overall DoD staffing. However, the additional staffing determination assumed that overlapping or duplicating functions by Army and DCMC personnel would occur if AAP CAS were transferred to the DCMC. A detailed personnel staffing assessment was not made. The report on the prior AAP study states, "In the event that AAP CAS is transferred to DCMC, actual resource and personnel transfers would need to be further studied and negotiated."

Overlapping or duplicating of effort will not necessarily occur if the DCMC is delegated AAP CAS. In fact, the objective of the consolidation is to avoid the present situation of multiple organizations providing CAS. There is obvious duplication in the present arrangement that cannot be avoided while consolidation, if properly implemented, can ensure an efficient and effective use of resources. Some of the AAP CAS requirements may be satisfied on a mobile basis rather than a resident basis simply because of the large number and dispersal of DCMC offices. Moreover, the DCMC has centralized some CAS specialties, such as insurance and pension and electronic data processing reviews, and those services would be available to the AAP on a mobile basis.

Improved Efficiency Through CAS Delegation. In addition to the overriding reasons cited earlier for delegating all DoD CAS to the DCMC, several specific reasons support transfer of CAS from the AAP to the DCMC.

o The DCMC has the capability to perform the CAS effectively. The prior AAP study acknowledged that the DCMC is able to perform CAS for the AAP, without loss in coverage or service.

o The DCMC also currently has the capability to provide several services, which the AAP considered to be non-CAS and unique to the AAP. Representatives of the DCMC stated that they routinely employ personnel who perform functions involved with security, safety, traffic management, engineering, and ammunition quality control.

o Representatives of the DCMC indicated that they may be able to satisfy many of the required CAS on a nonresident basis by use of their existing field offices. Therefore, economies could be realized through staff reductions by transferring CAS to the DCMC.

U.S. Navy Office of Naval Research

Office of Naval Research Mission and Composition. The mission of the ONR is to provide leadership to the Navy's research program and management and direction for all research, development, test, and evaluation conducted by

the ONR. Also, the ONR is responsible for providing overall management and direction to the Navy's Patent Program, controlling the Navy Research Development and Evaluation budget, acting as the Navy focal point for worldwide research information, and conducting the contract management program at educational institutions in support of all Federal agencies.

Regarding contract management, the ONR is responsible for conducting grant and contract administration services (G&CAS) for its own grants and contracts and those awarded to educational institutions by the Army, Navy, Air Force, National Aeronautics and Space Administration, Department of Energy, and other Federal agencies. The ONR currently performs those administration functions because over the years, it developed a unique expertise in dealing with educational institutions and non-profit organizations.

The ONR carries out its G&CAS responsibilities through its University Business Affairs Division established solely for that purpose. The division employs about 76 field personnel situated in 5 regional offices and several small branch offices. The field office staffs consist primarily of contract administrators, grant specialists, procurement technicians, and administrative support personnel. Also, 9 University Business Affairs personnel are at the headquarters office in Ballston, Virginia. A list of the personnel assigned to each of the offices is in Appendix D. Five headquarters employees negotiate indirect cost rates for educational institutions and non-profit organizations. The remaining headquarters employees manage the field offices.

ONR Retention of G&CAS. The ONR believes that it should retain G&CAS for grants and contracts awarded to educational institutions and non-profit organizations because ONR personnel are knowledgeable of the regulations developed specifically for those entities; ONR personnel know the systems those institutions and organizations maintain; all ONR efforts deal with educational institutions and non-profit organizations, and ONR believes its customers are satisfied with its work.

Those reasons were the basis for ONR conducting G&CAS even after the DCMC was established as a single DoD contract administration organization. This authority for conducting G&CAS is formally recognized in the Defense Federal Acquisition Regulation Supplement 242.203 (a)(i)(B) in which allowance is made for DoD activities to continue to administer contracts for research and development with universities. Nevertheless, our evaluation showed that streamlining and downsizing actions have changed the way in which the ONR provides G&CAS. The unique expertise arguments of the past are no longer pertinent.

The ONR no longer maintains on-site offices at the institutions and organizations that it serves. Most of its efforts are spent in performing non-complex, routine tasks, such as processing payment requests, closing grants and contracts, and performing occasional purchasing system and property control reviews of universities. The DCMC routinely performs all of these functions.

Efficiencies in Delegating G&CAS. What follows are other reasons that support the transfer of CAS from the ONR to the DCMC.

o Representatives of the ONR acknowledged that the DCMC could perform the G&CAS being performed by the ONR. They are concerned, however, about the time required for the DCMC to become knowledgeable of operations of educational institutions and non-profit organizations and that when overall workload is particularly heavy, those entities might receive inadequate attention.

o The purchasing system reviews conducted by the ONR should decrease significantly due to the review requirement threshold revision from $10 to $25 million. Moreover, those reviews often duplicate coverage of universities by independent public accountant audits performed in accordance with the Office of Management and Budget Circular A-133, "Audits of Institutions of Higher Education and Other Non-Profit Institutions." Circular A-133 audits are required to cover the universities' purchasing and property control systems.

o The ONR does not maintain an on-site presence at the institutions and organizations over which it has G&CAS cognizance. It operates from five regional offices and several small branch offices. The DCMC maintains about 80 major CAS offices and various operating locations within those offices, which are dispersed throughout the United States. As a result of DCMC maintaining significantly more field offices than ONR, the DCMC should be able to reduce travel costs and review time in the performance of field reviews of the institutions over which the ONR presently has CAS cognizance.

o The DCMC would likely streamline the G&CAS currently being conducted by the ONR. Of particular concern are the areas in which the ONR regional offices seem to expend most of their time such as processing payment requests and closing grants and contracts awarded to many low-risk educational institutions and non-profit organizations. Further, reliance on grantee and contractor systems and Defense Finance and Accounting Service review efforts should substantially reduce the time currently spent for the payment request review function.

The ONR personnel do not perform any unique non-CAS functions. The ONR has established regional offices and a headquarters staff that are solely dedicated to G&CAS. This structure allows a ready determination of the numbers of people conducting G&CAS functions and should facilitate the determination of DCMC staffing requirements.

The U.S. Navy Supervisor of Shipbuilding, Conversion and Repair

Supervisor of Shipbuilding, Conversion and Repair Mission. The SUPSHIP has a two-fold mission: to be the technical, business, and contractual on-site agent for the Naval Sea Systems Command and to be the DoD Designated Contract Administrator for shipbuilding and ship repair contracts. The Navy requires real-time technical, programmatic, and contractual responsiveness in shipbuilding and ship repair to accommodate emergent fleet requirements,

growth, new work, changes, safety, environmental issues, and integrated logistics support to ensure fleet readiness. Therefore, during 1996, the Navy maintained 12 SUPSHIP offices that employed about 2,400 civilians. A list of the SUPSHIP staffing assigned to each of the offices is in Appendix E. The staffing is expected to be further reduced to 9 SUPSHIP and 2,300 employees during 1997.

The SUPSHIP performs one-stop services for its customers. It is involved with planning requirements; contracting; contract administration; technical, logistics, and crew support; and testing and sea trials. These functions are much broader than CAS, which are estimated to comprise about 40 percent of the SUPSHIP functions. The Navy believes the SUPSHIP integrated CAS and non-CAS operation is efficient and effective.

Navy Justification for Retaining SUPSHIP CAS. The earlier SUPSHIP studies concluded and the current position of the Navy is that the Navy should retain SUPSHIP CAS for several reasons. The most significant reasons are that the SUPSHIP consists primarily of field technical and engineering activities with CAS functions representing only about 40 percent of the total SUPSHIP operations; the same personnel often accomplish CAS and non-CAS functions, and separation of the functions would not result in a more cost-effective or operationally responsive organization; and significant risk to successful mission performance for both CAS and non-CAS functions would result if SUPSHIP responsibilities were divided.

After reviewing the SUPSHIP offices, we concluded that the 40-percent CAS estimate is reasonable. However, we question the conclusion resulting from the prior studies that separation of CAS functions from SUPSHIP personnel would not result in a more cost-effective organization. That conclusion was a judgmental determination based on the premise that separating the CAS and non-CAS functions from the individuals now performing those functions would be difficult and would probably result in duplicating or overlapping effort. The Navy and DCMC team members who participated in the studies discussed in detail each function performed by the SUPSHIP and designated those functions as CAS, delegable CAS, or non-CAS. Supporting analysis showed that the study team members could not always agree which designations were proper. In fact, the 1992 report on the SUPSHIP study stated, "Should a decision be made to transfer SUPSHIP CAS to DCMC, a detailed site-by-site resource and workload assessment must be performed." We agree that further analysis would be required. Successful performance of both CAS and non-CAS functions would not be impeded if SUPSHIP responsibilities were divided. The DCMC has been administering major contracts throughout the DoD without negatively affecting mission performance and often with on-site program manager representatives.

Potential for Delegation of SUPSHIP CAS. We visited six SUPSHIP offices to evaluate their operations and missions. We also visited several types of DCMC CAS offices: a large resident office, the DCMC Aircraft Program Management Office, and the DCMC field office that administers the Military Sealift Command operational contracts. Representatives of the DCMC said that those offices were performing CAS functions similar to the normal CAS functions the SUPSHIP offices conducted.

The resident DCMC office is organized into three primary groups: the Technical Assessment Group, Management Support Group, and Operations Group. The Technical Assessment Group consists mainly of a 19-person Business Finance Team involved with overseeing contractor safety procedures, conducting contractor purchasing system and property control reviews, and negotiating forward pricing and final overhead rates. The Management Support Group is a 10-person office that provides budget, automation, and travel support. The Operations Group of about 60 personnel is organized around major program customers. This group employs administrative contracting officers, contract specialists, cost/price analysts, engineers, management analysts, and quality assurance specialists. The group works closely with its program offices, with the largest program employing about 60 on-site personnel.

While the DCMC has had limited involvement with shipbuilding (see the discussion below on DCMC administration responsibilities regarding several Military Sealift Command ships), it could readily assimilate the knowledge and expertise needed to address the unique CAS complexities of the shipbuilding industry. The DCMC employees had to become familiar with similar complexities when administering contracts for building aircraft and satellites. Personnel believe that those types of contracts are at least as complicated as shipbuilding and similarly involve substantial funding. Not only did the DCMC representatives indicate that they could perform the contract administration required for the SUPSHIP, but they also emphasized that one current DCMC initiative is increased involvement with its customers and use of the flexibility available within the acquisition regulations to provide as many services to its customers as practicable.

The DCMC established the Aircraft Plant Maintenance Office in February 1988 for a 3-year test. It became a contract administration office in December 1992 and today operates as an informal center of excellence within the DCMC for aircraft maintenance contracts. The Aircraft Plant Maintenance Office has a headquarters office in Marietta, Georgia, and 12 field offices. About 95 people provide acquisition and business strategy support and administration to DoD customers for aircraft overhaul, maintenance, repair, modification, and logistics support contracts. Similar to the SUPSHIP, the aircraft plant maintenance offices deal with a unique, mission-critical, high-dollar value product that needs continuing technical support and focus on timely delivery. The primary difference between the SUPSHIP and these aircraft maintenance offices is the greater reliance that the Aircraft Plant Maintenance Office places on contractor systems and contract terms and conditions to ensure that contractors adequately perform. The DCMC emphasizes more of an oversight approach to CAS and holds the contractor responsible for complying with the contract requirements.

The DCMC office that conducts some contract administration for the Military Sealift Command is located at the Picatinny Arsenal. That office is administering a contract that the Naval Sea Systems Command awarded for delivery of five newly converted large, medium speed, roll on/roll off ships to the Military Sealift Command. The ships are Government-owned, civilian-operated vessels that conduct strategic airlift for the U.S. Army. The Military Sealift Command and the DCMC entered into a memorandum of agreement that defines the functions and responsibilities of each organization with respect to administering the contract. On October 13, 1995, the Military Sealift

Command issued a letter of delegation assigning CAS responsibility to the DCMC. The DCMC hired five technical people to support this contract, and its representatives stated that this contract is the first of its type that has been delegated to DCMC for contract administration.

From reviews of the DCMC offices discussed above, we determined that the DCMC is able to conduct the types of CAS the SUPSHIP provides. Our reviews and discussions with DCMC headquarters representatives convinced us that the SUPSHIP CAS requirements are not unique when compared to those of other major DoD organizations whose contracts the DCMC administers.

Several other specific reasons support transfer of the SUPSHIP CAS function to the DCMC.

o The prior studies concluded and we concur that SUPSHIP CAS functions can be separated from non-CAS functions.

o The DCMC already performs complex CAS functions for DoD, including functions similar to those that would be expected with transfer of SUPSHIP CAS to the DCMC. Therefore, a transfer would not pose any insurmountable problems provided adequate resources were transferred with the delegation authority.

o Several large DCMC offices are presently assigned CAS responsibilities and are collocated with large program office staffs, a condition that would exist with the transfer of SUPSHIP CAS to the DCMC.

According to DCMC representatives regarding several CAS functions being performed by the SUPSHIP, the SUPSHIP offices may be doing more than what would be required of an independent CAS office. For example, the SUPSHIP has personnel assigned to functions, such as ordering, tracking, and receiving selective materials for the construction and repair of Navy ships. The DCMC representatives said that those types of functions are normally contract requirements in the contracts that DCMC administers. Also, the SUPSHIP was performing extensive reviews of engineering drawings. The DCMC representatives also indicated that the DCMC CAS policies emphasize the need to conduct limited engineering drawing reviews and to concentrate on the adequacy of the contractor's system, which emphasizes reliance on the contractor to provide the services. A fresh look at the SUPSHIP CAS requirements by the DCMC would potentially further streamline CAS functions that the SUPSHIP presently conducts.

Contracting Officer Independence. Because of the strong management roles taken by the IOC over the AAP and by the Naval Sea Systems Command over the SUPSHIP, there is potential for influence on contracting officer decisions and associated contract performance.

A key element of independence is freedom from personal and organizational impairments. Administrative contracting officers must be independent of the contractors they have cognizance over and the customers to whom they provide services. The IOC and the Naval Sea Systems Command are major commands heavily involved with buying responsibilities, while also being responsible for some specific contract administration functions and for overseeing on-site

contract administration. In our opinion, there is an inherent potential conflict of interest in having the procuring and administrative contracting officers in the same command. Officials with both of these responsibilities may not be independent with regard to judgments affecting their department's programs. Shifting the responsibility for contract administration decisions from officials who could be influenced by program or other buying command personnel would provide the checks and balances necessary to resolve real or perceived conflicts of interest. Not only must the CAS organization be independent in fact, but it must also be viewed as independent and impartial by key parties, including the Congress and the general public.

Summary

The AAP, ONR, and SUPSHIP retained contract administration responsibilities even after the establishment of the DCMC as a single consolidated DoD contract administration organization. The DCMC is fully capable of performing the CAS required for these three components, including some non-CAS duties believed to be unique to each. The failure to delegate the contract administration responsibilities to the DCMC has prevented the DoD from realizing the economies of scale envisioned with the establishment of the DCMC. Delegation of AAP, ONR, and SUPSHIP contract administration responsibilities to the DCMC would increase efficiencies and could result in reduced staffing and operation costs. Fewer regulations, personnel dedicated solely to contract administration, greater independence and consistency in decision making, one contract administration face to industry, and improved uniformity and expediency in implementing acquisition reforms would also result. Transfer of AAP, ONR, and SUPSHIP contract administration responsibilities to the DCMC would additionally allow for an independent, fresh look at the processes in place and provide the potential for further streamlining opportunities. Providing some contract administration services to the AAP on a non-resident basis, conducting fewer engineering drawing reviews, and contracting out the material and other parts acquisitions performed by the SUPSHIP are examples of potential streamlining that should be considered. We have presented various reasons that support transfer of additional contract administration responsibilities to the DCMC. However, in order to more adequately determine the cost-effectiveness of the transfers, we believe that additional studies are preferable before a decision is made on the transfer.

Management Comments on the Finding and Evaluation Response

Management Comments. Each of the organizations that commented on the report emphasized that the evaluation did not demonstrate the cost savings and/or benefits to be realized by transferring CAS responsibilities to the

DCMC. The Acting Deputy Under Secretary of Defense (Acquisition Reform) responded that the evaluation lacks supporting analysis and critical examination of the effects such transfers would have on the organizations and their customers. The Acting Deputy Under Secretary further stated that a full analysis of the recommended changes was needed before a final decision could be made.

Evaluation Response. Our tasking from the Deputy Secretary of Defense was to identify opportunities for process improvement of the DCMC mission, operation, and organizational structure. We did not attempt to perform the detailed and lengthy analysis required to determine exactly how many of the present resources could or should be reassigned to the DCMC. Such an analysis was beyond the scope and resources of our evaluation. The underlying premise of our tasking, as stated in the DLA comments on our report, is that "CAS function consolidations have historically proven to save costs," and we found no convincing evidence to the contrary during our review. Nevertheless, we fully agree with the Acting Deputy Under Secretary that analyses of the economic effects will better substantiate a final decision on the transfer of CAS responsibilities to the DCMC. We, therefore, revised the final report and recommend that the Under Secretary of Defense for Acquisition and Technology initiate the required analyses.

Recommendations, Management Comments, and Evaluation Response

Deleted and New Recommendations. As a result of management comments, we deleted draft report Recommendation 1. for the Under Secretary of Defense for Acquisition and Technology to direct the Defense Acquisition Regulation Council to eliminate Defense Federal Acquisition Regulation Supplement 242.203(a)(i)(B). The Supplement authorizes DoD Components, to include the ONR, to retain contract administration of contracts for research and development with universities. Eliminating the authorization should be reconsidered if further analyses determine that ONR grant and contract administration responsibilities should be transferred to the DCMC. We also deleted draft Recommendations 2. and 3. regarding the transfer of additional contract administration responsibilities to the DCMC pending an in-depth cost benefits analysis.

We recommend that the Under Secretary of Defense for Acquisition and Technology charter a joint executive-level review of the effectiveness of consolidating contract administration responsibilities of the U.S. Army Ammunition Plants; the Office of Naval Research; and the U.S. Navy Supervisor of Shipbuilding, Conversion and Repair in the Defense Contract Management Command. Because of the unique differences of each organization, separate process action teams should be established to perform the analysis of each organization. Team members should include representatives of the Office of the Secretary of Defense; the Office of the Inspector General, DoD; the organizations being analyzed, and the Defense Contract Management Command.

Under Secretary of Defense for Acquisition and Technology Comments. The Acting Deputy Under Secretary of Defense (Acquisition Reform) nonconcurred with the draft report, emphasizing that the Defense Federal Acquisition Regulation Supplement 242.203(a)(i)(B) authorizes all DoD organizations, not just ONR, to retain administration of research and development contracts with universities. Therefore, elimination of that provision should not be made, unless it is determined that there would be no effect on DoD organizations other than ONR. Management also stated that the decision for the transfers should not be based on whether the DCMC is capable of performing the required contract administration services or whether the arguments for transfer of the additional contract administration responsibilities to the DCMC are persuasive. The decision should be based on supporting analyses and critical examination of the effects such transfers would have on the organizations and their customers. Absent that level of review and documentation, management cannot concur with the recommended transfer. Instead, the Acting Deputy Under Secretary recommended that full analyses of the proposed changes be accomplished before issuance of our final report.

Evaluation Response. We consider management comments responsive. As a result of the comments, we deleted the draft report recommendation to eliminate the Defense Acquisition Regulation Supplement 242.203(a)(i)(B). The recommendation was based on the premise that ONR is the only DoD organization that conducts DoD grant and contract administration for research and development contracts with universities. Accordingly, implementation of our recommendation to transfer ONR grant and contract administration responsibilities to the DCMC would necessitate elimination of the regulation authorizing DoD organizations other than DCMC to retain those responsibilities. We believe, however, that the continuing need for the Defense Acquisition Regulation Supplement provision should be reexamined if additional analyses result in a decision that ONR grant and contract administration responsibilities should be transferred to the DCMC.

We understand management's reservations in not transfering contract administration services in the absence of detailed cost benefit and mission effects documentation. In our planning process for this evaluation, we considered conducting such an analysis. However, we determined that the analysis was beyond the scope of the evaluation requested by the Deputy Secretary of Defense. Further, we believed that the resources required to conduct such an analysis could be cost prohibitive and might not be necessary to decide on the appropriateness of the transfers. We based our decisions on the fact that the prior studies at the AAP and SUPSHIP resulted in CAS retention decisions, even though the prior studies did not produce detailed supporting documentation on cost benefits related to retention of contract administration services by the AAP or the SUPSHIP.

For example, the 1992 report on the SUPSHIP functions indicated that the Navy and DLA representatives could not always agree on whether certain functions were contract administration or non-contract administration services. The report also emphasized that a detailed site-by-site resource workload assessment would have to be performed if the decision was made that SUPSHIP contract administration responsibilities were to be transferred to the DCMC. The prior studies concluded that since contract administration and non-contract administration functions were often performed by the same personnel, it would

not be cost-effective to separate the contract administration functions and assign them to the DCMC. Also, there are many ways in which cost-benefit analyses can be conducted, and any one could be subject to scrutiny by the Services.

We maintain that the advantages of centralization are sufficient to warrant the recommended transfers and that in the long run, the recommended transfers will benefit the DoD. Such streamlining is in keeping with the objectives of the National Performance Review. However, we agree that a full analysis of the recommended changes will lend substantial credibility to implementation of the recommendations. Therefore, we revised the final report recommendation to establish separate process action teams to perform the analysis of each of the affected organizations. We do not agree that delaying issuance of our final report until completion of the full analysis is appropriate.

We request that the Under Secretary of Defense for Acquisition and Technology provide comments on the final report to include milestones for initiating and completing the recommended analyses.

Army Comments. The Army did not specifically concur or nonconcur with the draft report recommendation to transfer AAP contract administration responsibilities to the DCMC. The Army believes that our evaluation has merit, but that the conclusions regarding the AAP are unsupported and that the draft recommendations are premature. There is no evidence to support that changes since the 1990 study of the AAP have invalidated the results of the previous study. Before attempting to transfer the contract administration responsibilities of the AAP to the DCMC, the subject should be jointly studied again.

Navy Comments. The Navy nonconcurred with the recommendation for elimination of the Defense Federal Acquisition Regulation provision that waives the mandatory assignment of contract administration services to the DCMC. The Navy stated that the ONR does not use this exception as the basis for conducting its administration of university research and development contracts. The provision was developed in recognition of the fact that DoD commands may have valid reasons to retain administration of their own research and development awards with universities. The Navy believes that the entire DoD contracting community should be consulted before eliminating the provision.

Regarding the draft report recommendation for transfer of contract administration responsibilities of the ONR and SUPSHIP, the Navy referred to contract administration retention decisions made as a result of earlier studies and determinations. The Navy believes that no new information has been presented to substantiate changes to the earlier decisions. The Navy also submitted various rebuttals to discussions in the draft report that supported the transfer of contract administration responsibilities to the DCMC.

Defense Logistics Agency Comments. The DLA acknowledged that consolidations of contract administration services have historically proven to avoid costs. However, DLA also stated that the draft report lacked the detailed analysis of benefits to be gained by all parties involved. DLA believes that conducting the CAS responsibilities currently retained by the AAP, ONR, or SUPSHIP CAS will not provide any significant opportunity for cost benefits. DLA also emphasized that the DCMC was not involved in the evaluation and that it has been some time since DLA looked at the feasibility of consolidating

those organizations within the DCMC. In conclusion, the DLA recommended that a full cost-benefit analysis be performed to support the recommendations.

Evaluation Response. We believe that our revised recommendation and our response to comments from the Acting Deputy Under Secretary of Defense (Acquisition Reform) adequately address the Army, Navy, and DLA comments.

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Part II - Additional Information

Appendix A. Evaluation Process

Scope and Methodology

We reviewed mission statements, operations, organizational structures, and alignments of the AAP, the ONR, and the SUPSHIP. We also evaluated the reasons addressed in prior reports and reasons the Army and Navy presented for their continued retention of CAS responsibilities for the AAP, the ONR, and the SUPSHIP.

We reviewed DCMC offices performing CAS functions similar to those retained by the organizations under review. We held discussions with contractor officials and other DoD agency representatives to determine their reactions to the possible transfer of CAS responsibilities and any obvious effect on their operations, especially as related to the many recent DoD acquisition improvement initiatives.

We interviewed DoD administrative and procurement contracting officers and specialists in the areas of grants, quality assurance, logistics management, the environment, safety, and security. We also interviewed planners, program management officials, engineers, auditors, and accountants.

The DCMC was established to have one centralized CAS organization for all of DoD to increase the effectiveness and efficiency of DoD CAS operations while reducing staffing requirements and lowering costs related to CAS. We believe that those results have occurred with the establishment of the DCMC and that similar results will occur with the additional centralization of CAS for the AAP, the ONR, and the SUPSHIP. Accordingly, we believe that the organizations under review should be tasked with presenting convincing data or arguments to justify that their CAS responsibilities should not be delegated to the DCMC. We, therefore, limited our review to the DCMC offices stated above.

We did not believe it necessary to review all functions performed and the time spent on the functions by each employee of the organizations under review and then to estimate whether delegating identified CAS functions to the DCMC would increase or decrease staffing for each office. This type of detailed review was discussed during past studies but never performed. That decision, as well as our own, considered the amount of time and cost that would be involved with such a study and the subjectivity concerning any of the related conclusions. In the prior studies, agreements could not be consistently reached as to whether certain functions performed were CAS or non-CAS.

We visited or contacted individuals and organizations within DoD and several contractors familiar with the department's contract administration responsibilities.

Appendix B. Summary of Prior Studies

AAP

When the DCMC was established in 1990, a joint DLA/Army Study Team was formed in accordance with DMRD 916 to reevaluate the earlier Joint Office of the Secretary/DoD Task Force recommendation to exclude the AAP from the DCMC. The study team's objectives were to identify those CAS functions that the AAP performs and to review the feasibility of consolidating the CAS functions within the DCMC. That study showed that more than half of the AAP workload is non-CAS related. The study team also found the CAS and non-CAS functions performed at the AAP were so intertwined they could not be easily separated. The study confirmed the appropriateness of the earlier determination that the fully integrated management process over the development, production, inventory management, and delivery of ammunition was effective. The study further concluded that the AAP CAS transfer would neither enhance readiness nor effect cost avoidances. The prevalent situation of one buying office, one contract, and one contractor per plant minimizes monetary benefits in the view of previous studies. As a result of those determinations, the Army would retain the responsibility for AAP CAS.

ONR

Since its inception in 1946, various studies regarding the ONR conduct of G&CAS contributed to changes in ONR structures and locations. However, no specific studies were conducted to determine whether the ONR should transfer its G&CAS function to the DCMC.

SUPSHIP

Also at the time of the establishment of the DCMC in 1990, a joint DLA/Navy Study Team was formed to reevaluate the earlier Joint Office of the Secretary of Defense/DoD Task Force recommendation to exclude SUPSHIP CAS from the DCMC. The initial recommendation was made because the SUPSHIP was considered to involve primarily field technical and engineering activities that participated in the solicitation and award of ship overhaul and repair contracts to private sector shipyards (procurement contracting officer functions). The SUPSHIP CAS functions were believed to be minor.

The DLA/Navy study team was tasked with identifying non-CAS functions being performed by the SUPSHIP and determining the feasibility of

consolidating the SUPSHIP CAS functions within the DCMC. The 1990 study concluded that 50 percent or more of the SUPSHIP functions was outside the mission of the DCMC, the non-CAS functions are not readily severable from the SUPSHIP non-CAS functions, and transfer of SUPSHIP CAS to the DCMC would probably increase staffing due to duplication caused by the Navy's need to retain a presence at contractor facilities to perform non-CAS functions. The related recommendation was for the Navy to retain full management control of the SUPSHIP. The Deputy Secretary of Defense decided not to act on the December 1990 report. He deferred his decision pending further evaluation.

The then Under Secretary of Defense (Acquisition), retitled Under Secretary of Defense for Acquisition and Technology, November 1993, established a joint Office of the Secretary of Defense/DLA/Navy review team to perform the additional review required by the Deputy Secretary of Defense. That review, conducted in accordance with Defense Management Review Decision 916, "Streamlining Contract Management," resulted in a December 1992 report that contained conclusions similar to the 1990 report. Once again, the recommendation was for the Navy to retain the SUPSHIP CAS functions.

At the time of the prior studies, 15 SUPSHIP activities employed about 4,600 civilian employees. Due to directed staff reductions caused primarily by anticipated workload reductions, the staffing level was projected to be reduced to 2,600 by FY 1997. As indicated in the report, the 1996 staffing of about 2,400 has already slightly bettered that projection.

Appendix C. Organization and Staffing for the Army Ammunition Plants

Included in the Army mission of being the Single Manager for Conventional Ammunition, the U.S. Army Industrial Operations Command is the responsibility for overseeing the operation of the 21 Government-Owned, Contractor-Operated Army ammunition plants. The ammunition plants employ about 250 DoD civilians at 7 active and 14 inactive plants. About 20 military personnel are also assigned to the active plants. The plants and approximate staffing follow.

Active Plants	Civilian Staffing	Military Staffing
Hawthorne	36	3
Holston	20	3
Iowa	23	3
Lake City	26	3
Lone Star	19	3
Milan	27	3
Radford	27	3
Subtotal	**178**	**21**
Inactive Plants		
Alabama	1	
Badger	5	
Cornhusker	3	
Indiana	5	
Joliet	4	
Kansas	10	
Longhorn/Louisiana	15	
Mississippi	3	
Ravenna	4	
Riverbank	4	
Scranton	8	
Sunflower	6	
Twin Cities	4	
Volunteer	4	
Subtotal	**76**	
Total	**254**	**21**

Appendix D. Organization and Staffing for the Office of Naval Research

The Office of Naval Research established a separate division, the University Business Affairs Division, to administer grants and contracts the Office of Naval Research awarded to universities and nonprofit businesses and those awarded by other DoD and Federal organizations. The University Business Affairs Division is staffed with 9 headquarters personnel and 76 field personnel. The assignment of those positions is shown below.

Headquarters	Staffing
Director's Office	2
Field Operations Branch	2
Indirect Costs Branch	5
Subtotal	**9**
Regional Offices	
Atlanta	14
Boston	14
Chicago	14
San Diego	14
Seattle	12
Subtotal	**68**
Systems Review Branches	
Albuquerque	1
Austin	1
Boston	5
Chicago	1
Subtotal	**8**
Total	**85**

Appendix E. Organization and Staffing for the U.S. Navy Supervisor of Shipbuilding, Conversion and Repair

The Supervisor of Shipbuilding offices were established to satisfy a two-fold mission: to be the technical, business, and contractual on-site agent for the Naval Sea Systems Command and to be the DoD Designated Contract Administrator for shipbuilding and ship repair contracts. During 1996, the Navy maintained 12 Supervisor of Shipbuilding offices and three detachments within the United States to accomplish that mission. The locations and staffing positions within those offices follow.

SUPSHIP Office	Staffing
Bath, ME	225
Charleston, SC	33
Groton, CT	215
Jacksonville, FL	140
Long Beach, CA	10
New Orleans, LA	251
*Det Sturgeon Bay	10
Newport News, VA	316
Pascagoula, MS	290
Portsmouth, VA	330
*Det Colts Neck	33
Puget Sound, WA	95
San Diego, CA	401
*Det Pearl Harbor	41
San Francisco, CA	20
Total	**2410**

* Det - Detachment

Appendix F. Report Distribution

Office of the Secretary of Defense

Deputy Secretary of Defense
Under Secretary of Defense for Acquisition and Technology
  Deputy Under Secretary of Defense (Acquisition Reform)
  Director, Defense Logistics Studies Information Center
Under Secretary of Defense (Comptroller)
Assistant Secretary of Defense (Public Affairs)
Director, Defense Procurement

Department of the Army

Assistant Secretary of the Army (Research, Development, and Acquisition)
Auditor General, Department of the Army

Department of the Navy

Assistant Secretary of the Navy (Financial Management and Comptroller)
Assistant Secretary of the Navy (Research, Development, and Acquisition)
Auditor General, Department of the Navy

Department of the Air Force

Assistant Secretary of the Air Force (Acquisition)
Assistant Secretary of the Air Force (Financial Management and Comptroller)
Auditor General, Department of the Air Force

Other Defense Organizations

Director, Defense Contract Audit Agency
Director, Defense Finance and Accounting Service
Director, Defense Logistics Agency
  Commander, Defense Contract Management Command

Non-Defense Federal Organizations and Individuals

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

Chairman and ranking minority member of each of the following congressional committees and subcommittees:

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

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Part III - Management Comments

Acting 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

09 OCT 1997

MEMORANDUM FOR DEPUTY ASSISTANT INSPECTOR GENERAL (AUDIT POLICY AND OVERSIGHT)

THROUGH: DIRECTOR, CONGRESSIONAL ACTIONS AND INTERNAL REPORTS, API

SUBJECT: Draft Evaluation Report on the Consolidation of DoD Contract Administration Services (Project No. 6OC-9028)

We have reviewed the draft evaluation report dated August 7, 1997, subject as above.

We nonconcur with the draft report. Our specific comments are found as an attachment to this memorandum. The recommendations of the draft report, to transfer contract administration service responsibility for the U.S. Army Ammunition Plants, the U.S. Navy Supervisor of Shipbuilding, Conversion and Repair, and the Office of Naval Research to the Defense Contract Management Command, unfortunately lack supporting analysis and critical examination of the impacts such a transfer would have on these organizations and their customers. Absent supporting documentation, we cannot concur with the recommendation to effect this transfer.

We acknowledge that DMRD 916 established the requirement to streamline the way DoD conducts the administration of its contracts. We should look at implementing change when it is prudent in both the short and long run to the interests of the entire DoD and the Government. We recommend that a full analysis of the proposed change be accomplished prior to the issuance of the final DoD Inspector General Report.

Donna S. Richbourg

Donna S. Richbourg
Acting Deputy Under Secretary of Defense
(Acquisition Reform)

Attachment:
As stated

Final Report Reference

Deleted

RECOMMENDATION 1: Direct the Defense Acquisition Regulation Council to eliminate the Defense Federal Acquisition Regulation Supplement (DFARS) 242.203(a)(i)(B), which authorizes the Office of Naval Research to retain administration of contracts for research and development with universities.

RESPONSE: Strongly nonconcur with the recommendation to eliminate the DFARS 242.203(a)(i)(B) provision that authorizes the retention of contract administration for research and development contracts with universities. This exception authorizes all DoD activities, not just the Office of Naval Research (ONR), to retain administration of these contracts. Prior to the elimination of a DFARS provision, we recommend that an evaluation be conducted that examines how all DoD components conduct administration on their contracts for research and development with universities. Without such supporting data, it is impossible to determine whether or not we should concur with this recommendation.

Also strongly nonconcur with the recommendation to transfer responsibility for post award administration of university grants and contracts from the ONR to the Defense Contract Management Command (DCMC). This is, we understand, part of the intent of recommendation 1, and repeated as part of recommendation 3. DCMC has experience with administering cooperative agreements and "other transactions" for advanced research performed by for-profit firms and consortia involving for-profit firms. There are, however, significant differences between those instruments and the grants and contracts, mainly for basic and applied research, that the ONR administers with universities and non-profit organizations. This is not a question of DCMC's ability and technical competence to administer university grants and contracts, given the required specialized training in that function: DCMC has proven itself on numerous occasions to be able to assume new missions and execute them well. We question the method of determining that this transfer is the right thing to do without an analysis of the benefits and drawbacks that this action would cause. Some specific questions that the report should answer are:

a. Exactly what savings would the Navy see as a result of the transfer of responsibility, especially in the areas of administrative overhead, travel, training and personnel strength? What is the impact on DCMC in terms of training, personnel resource allocation, travel and coordination time?
b. What risk management tools were used to make the assessment that the university grants and contracts are "low risk," and that the lower level of risk justifies less time being spent on post award administration than is currently being spent? The analysis must also include the programmatic impacts of reduced attention to post award administration.
c. What is the effect on the DoD's research mission, losing of a central point dedicated to administering university grants and contracts for research and research related education and training programs, as well as the maintenance of the DoD's partnership with academic institutions for those purposes.

Without proven savings gained by the transfer of the university grant and contract administration mission, and an assessment of impacts on the organizations involved and on the DoD's research programs, we run the risk of making a poor, uninformed decision that is contrary to the best interests of efficiency and effectiveness in Government.

Acting Deputy Under Secretary of Defense (Acquisition Reform) Comments

Final Report Reference

Revised

RECOMMENDATION 2: Transfer contract administration responsibility for the U.S. Army Ammunition Plants from the Army to the Defense Contract Management Command.

RESPONSE: Nonconcur, subject to change with added justification, on the recommendation to transfer contract administration responsibility for the U.S. Army Ammunition Plants from the Army to DCMC. This nonconcurrence is centered on the lack of specific benefits (Appendix F) identified by this proposed action. The arguments promoting the transfer are persuasive, except they do not provide empirical data as backup. The lack of analysis leaves claims of decreased staffing and lower administrative costs totally unsupported. As in response to recommendation 1, we do not take issue with the abilities of DCMC to accomplish the mission. The issue is that the lack of analysis once again puts a potential action with Department of Defense wide ramifications into play without any supporting empirical rationale. For example, while the inability to segregate CAS related costs from current operating costs is understandable, it is a key element of information that must be examined prior to making a final decision regarding the cost impacts of this proposed measure. Similarly, the lack of study on the impacts of breaking up a central point of contract and production management for the Department of Defense's ammunition fails to acknowledge what changes to the existing system will have on this Army mission. As in the ONR situation, questions regarding personnel resource allocation, training and overhead should be addressed as part of an organizational benefit analysis. A comprehensive analysis of the benefits needs to be accomplished prior to an unqualified concurrence to this proposed finding. As the draft finding stands now, we run the risk of making an uninformed significant decision with DoD wide impacts.

Final Report Reference

Revised

RECOMMENDATION 3: Transfer contract administration responsibility for the Office of Naval Research , and the U.S. Navy Supervisor of Shipbuilding, Conversion and Repair, from the Navy to the Defense Contract Management Command.

RESPONSE: Nonconcur, subject to change with added justification, on the recommendation to transfer contract administration responsibility for the U.S. Navy Supervisor of Shipbuilding, Conversion and Repair to DCMC. Our concerns here are identical to those found in our responses to recommendations 1 and 2. The lack of objective data to support making a decision of this magnitude is unacceptable. The principle concern we have is centered on the lack of specific benefits (Appendix F) identified by this proposed action. This evaluation lacks hard analysis that examines the costs of implementing this proposal and its effects on the Department of Defense. This report has no basis upon which to credibly claim that the implementation of the recommendation would result in decreased staffing and lower administrative costs. Concurrence must be withheld until this analysis is complete.

Final Report Reference

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

14 OCT 1997

SARD-PP

MEMORANDUM FOR DEPUTY ASSISTANT INSPECTOR GENERAL (AUDITING), INSPECTOR GENERAL, DEPARTMENT OF DEFENSE, 400 ARMY NAVY DRIVE, ARLINGTON, VIRGINIA 22202-2884

SUBJECT: Draft Evaluation Report on the Consolidation of DoD Contract Administration Services (Project No. 6OC-9028)

This responds to your memo of August 7, 1997, requesting our comments concerning this draft report. Our comments relate strictly to those portions of your report which discuss contract administration services (CAS) at Army ammunition plants (AAPs).

Revised Recommendation 2.

Although we believe that your analysis has merit, we think that its conclusions are, as yet, unsupported and the resulting recommendations premature. We cannot support your position until this matter has been more thoroughly reexamined.

As you know, this issue (and numerous related matters) was thoroughly and painstakingly studied in 1989 by a joint Service/Defense Agency panel of subject matter experts assembled by the Secretary of Defense solely for that purpose. It was the studied opinion of this group that CAS at AAPs should not be transferred to the Defense Contract Management Command (DCMC)--an organization subsequently created in response to the recommendations of this same group. We firmly believe that their findings should not be reversed now based on recommendations from an evaluation process necessarily less thorough and demanding.

As your report indicates, that study team concluded that the Defense Logistics Agency (DLA) lacked personnel with the specialized knowledge and experience necessary for dealing effectively with this unique and quite-literally explosive commodity. We are advised that this situation has not changed. Indeed, whatever resources were available to DLA then, have undergone a 40% reduction since that time.

That DoD study team also determined that more than half of AAP workload involved work that was not CAS-related. Furthermore, it was found that CAS and non-CAS functions were so inextricably intertwined in the duties of key personnel that attempting to separate functions for transfer to DCMC would actually result in the need for additional resources to perform the same missions subsequently. Consequently, it was concluded that the transfer of AAP CAS to DCMC would neither enhance readiness nor save money.

We believe that this situation is also unchanged and feel that the draft report's claim that changes since 1990 "...have invalidated the results of previous studies ..." is unsupported and not convincing.

To be sure, the suggestion that a resource-intensive mission such as AAP CAS might be transferred outside the Army is certainly appealing . We are continuously striving to streamline and downsize our operations worldwide. Moreover, we continue to believe (as was stated in 1989) that this CAS mission could be performed by others. We also note that the DCMC has clearly shown great skill in coping with new and challenging responsibilities. However, as DOD's single item manager for conventional ammunition, the Army remains accountable for the optimal performance of this mission overall. Therefore, change simply for the sake of change--change in pursuit of theoretical and unproven economies--is simply not acceptable.

It must be remembered that the DoD study to which we refer was one of the most visible and prestigious events commissioned during the Defense Management Review. Nevertheless, it is possible that changes since 1990 have invalidated its conclusions. If so, those facts (not clear from either your draft report or our own day-to-day experience) should be similarly studied to assess where those changes have taken place and how and to what extent they may be safely, efficiently and effectively exploited in the future. Before attempting to implement your recommendations, this important subject should be jointly studied once again.

Edward G. Elgart
Acting Deputy Assistant Secretary of the
Army (Procurement)

Department of the Navy Comments

THE ASSISTANT SECRETARY OF THE NAVY
Research Development and Acquisition
1000 Navy Pentagon
Washington DC 20350-1000

OCT 2 1997

MEMORANDUM FOR OFFICE OF THE INSPECTOR GENERAL, DEPARTMENT OF DEFENSE

Subj: DRAFT EVALUATION REPORT ON THE CONSOLIDATION OF DOD CONTRACT ADMINISTRATION SERVICES (PROJECT NO. 6OC-9028)

Ref: (a) DODIG memo of 7 Aug 1997

Encl: (1) DON Response to Draft Evaluation Report

I am responding to the draft evaluation report provided by reference (a) concerning the recommended transfer of contract administration services responsibility from the Navy to the Defense Contract Management Command (DCMC). The Navy does not concur with the recommendations contained in the draft report.

The draft report's recommendation to transfer contract administration responsibility from the U.S. Navy Supervisors of Shipbuilding, Conversion and Repair (SUPSHIPs) to the Defense Contract Management Command (DCMC) runs counter to the findings of seven previously conducted, independent Department of Defense (DoD) studies addressing this question. As discussed in detail in enclosure (1), the SUPSHIPs' current integrated CAS/non-CAS process presents a single face to industry and has proven to be the most cost effective, synergistic, resource efficient approach to managing DoD's shipbuilding and ship repair contracts.

Similarly, the report's recommendation to transfer the grants and contract administration services responsibility from the Office of Naval Research (ONR) to DCMC is not substantiated by any new information that justifies changing the DoD's designated organization for management and oversight of federally-sponsored research at educational and non-profit organizations. ONR's unique expertise and experience in administering non-procurement instruments is not conducive to integration into DCMC's contract-focused organization, and is an essential element of ONR's role in federal research administration policy.

The Department of the Navy positions on these issues are further detailed in enclosure (1).

Very Respectfully,

John W. Douglass

Subj: DRAFT EVALUATION REPORT ON THE CONSOLIDATION OF DOD
CONTRACT ADMINISTRATION SERVICES (PROJECT NO. 60C-9028)

Blind copy to:
COMNAVSEASYSCOM
CNR
NAVINSGEN
OASN(FM&C)FMO-31

Final Report Reference

Department of the Navy Response

to

DODIG Draft Evaluation Report of August 7, 1997

on

Consolidation of DoD Contract Administration Services

Deleted

Recommendation 1:

We recommend the Under Secretary of Defense for Acquisition and Technology direct the Defense Acquisition Regulations Council to eliminate the Defense Federal Acquisition Regulation Supplement 242.203(a)(i)(B), which authorizes the Office of Naval Research to retain administration of contracts for research and development with universities.

DON Position:

Non-concur. Defense Federal Acquisition Regulation Supplement (DFARS) 242.203(a)(i)(B) is not related to ONR's authority for performance of contract and grant administration. This DFARS cite waives the mandatory assignment of contract administration services (CAS) in recognition of the fact that there are valid reasons why DoD commands may wish to retain administration of their own research and development awards with universities. ONR does not use this exception as the basis for conducting its administration of university R&D contracts. The entire DoD contracting community should be consulted before eliminating this subdivision.

Revised

Recommendation 3:

We recommend the Under Secretary of Defense for Acquisition and Technology transfer contract administration responsibility for the Office of Naval Research and the U.S. Navy Supervisor of Shipbuilding, Conversion and Repair, from the Navy to the Defense Contract Management Command.

DON Position:

Non-concur. We disagree with both parts of this recommendation. The recommendation encompasses two separate and distinct Navy elements, and we provide separate comments on issues distinctly applicable to each organization, below. However, certain of the report's generalized conclusions can be addressed together.

The first reason given for transferring CAS responsibilities to DCMC is the "logical conclusion" argument that since DCMC was established to provide DoD-wide CAS, then it should provide all

DoD-wide CAS. This argument was offered upon the establishment of DCMC and at various times since, and has been rejected each time. It does not address the merits of the case.

This argument is followed by 9 reasons that purportedly support transfer of CAS to DCMC. Each is addressed below:

- Economies of scale. There is an assumption in this reason that some economies will be achieved. However, none are identified.

- Similar to 1965's DCAA audit consolidation. There is a distinguishing difference between these two situations. The audit consolidation was essential to ensure that a contractor did not face two differing approaches to the same problem, depending on the agency it was dealing with. Such is not the case with ONR or SUPSHIP. ONR already provides "one face to industry" for its constituency, educational institutions, as does SUPSHIP for its constituency, the shipbuilders.

- Greater independence and consistency. Not applicable to ONR; the University Business Affairs division is organizationally and functionally separate from other program and contracting officials. At SUPSHIPs the diverse PEO/SYSCOM/Fleet responsibility and reporting structure provides the appropriate degree of independence without losing the synergy and sense of teamwork essential to accomplishing the complex SUPSHIP mission.

- Sole dedication to CAS. Not applicable to ONR. At SUPSHIP, their years of experience have revealed that the integrated CAS/non-CAS operation is the most efficient, effective method of accomplishing the mission, and this conclusion has been confirmed each time the issue has been studied.

- One face to industry. See second bullet above.

- DCMC resources/capability. While DCMC may well have the ability to learn those aspects of grant and contract administration that are unique to the shipbuilding and educational institution arenas, this is not a compelling reason to support the recommended transfer.

- Facilitation of acquisition reform. ONR and SUPSHIP are already implementing a number of acquisition reform initiatives such as SPI, Early CAS, Earned Value Management, Software Surveillance, the Federal Demonstration Partnership, Electronic Data

Interface/Electronic Funds Transfer and the Presidential Review Directive Working Group.

- Facilitation of contract payment process standardization. The Navy is unaware of any significant problems with contract payments that could be remedied by the proposed consolidation.

- DoD CAS regulation streamlining. ONR and SUPSHIPs add no regulations of their own regarding CAS. ONR's policy guidance has evolved to deal with situations that are encountered in the G&CAS arena unique to dealing with educational institutions, and SUPSHIP likewise has generated guidance on those issues unique to their narrow line of business. Contrary to the report contention, DCMC's CAS regulations would have to be expanded to accommodate these entirely new functions.

Details on these and other subjects related to each of the two individual commands concerned are provided below.

Office of Naval Research

Despite the report's conclusion that the unique expertise arguments of the past are no longer pertinent, ONR still possesses a unique expertise that does not exist elsewhere within DoD, and ONR is better suited to continue performing its G&CAS functions.

The draft report acknowledges that there are valid reasons for having CAS performed by organizations other than DCMC. However, it concludes that these valid reasons do not justify the retention of these responsibilities in this case. The Navy does not believe that the DoDIG's recommendation to transfer ONR's contract administration responsibility to the DCMC will accomplish the assumed benefits (i.e., economies of scale, consistent application of acquisition regulations, one contract administration face to the contracting community, and elimination of duplicate regulations and management structures) for the following reasons:

Economies of scale. The ONR university grant and contract administration organization has spent five years reengineering processes, installing "state-of-the-art" technology, reorganizing its field office structure, eliminating layers of management and end-user non-productive processes and streamlining procedures. The result is a highly efficient organization. ONR CAS field organization has reduced by 28% since 1992 with a corresponding productivity increase of 69%. ONR CAS personnel are generalists, i.e., each person is capable of addressing the gamut of contract and grant administration issues with its varied customers. DCMC uses a team approach with several specialists assigned to each action. ONR has five Regional Offices strategically located and staffed to oversee

its assigned S&T administration mission most effectively. DCMC has 80 locations.

Consistent application of acquisition regulations. Underlying statutes and regulations for the defense industry are different from those for educational institutions. The policies and procedures in the FAR and DFARS that are used to acquire goods and services for the direct benefit or use of the government via procurement contracts do not apply to grants or other nonprocurement transactions. The principal purpose of grants and other nonprocurement instruments is to transfer a thing of value to the recipient to carry out a public purpose of support or stimulation. Nonprocurement instruments are governed by the OMB circulars and the DoD Grant and Agreement Regulations (DoDGARS) that cover administrative matters and cost principles at educational institutions. Further, differences in statutory requirements, cost principles, property administration and audit requirements result in significant variance between commercial contract administration and university grant and contract administration. It is not possible to employ only one set of statutes and regulations to administer university and industry awards.

One contract administration face to the contracting community. Since 1946 the ONR field organization has been the one constant on which the university and Federal research communities rely for sound, hands-on expertise on how federally supported research is conducted on university campuses. This relationship epitomizes the "one face" relationship which DoD strives to achieve in its business dealings with outside communities. Changing from ONR to DCMC will present an entirely new face to non-DoD federal agencies and the university research community. At present, universities interact with research organizations familiar with university business and accounting systems (ONR and HHS are the federal cognizant agencies under OMB circular A-21 for indirect cost negotiation and audit resolution) and with the needs of science and technology research. DCMC expertise is entirely in the commercial defense industry and with a few nonprofits using FAR cost principles.

Elimination of duplicate regulations and management structures. ONR adds no additional regulations with regard to CAS. In fact, ONR is the key player in development of federal-wide rules for administration of grants (for example, OMB Circular A-110 and DoDGARS). Retention of the CAS function at ONR does require a management structure separate from that at DCMC. However, it should be noted that the ONR CAS organization is flat and the management structure extremely lean. There is one supervisory layer between headquarters management and working level contract administration personnel. This ONR structure enhances direct interaction with DoD and non-DoD research sponsors.

In addition, significant benefits will be realized by ONR's retention of its CAS function. Two notable areas are:

Facilitation of acquisition reform. ONR is an acknowledged leader in streamlining of Federal-wide administration of university research. Examples include the Federal Demonstration Partnership (FDP), Electronic Data Interchange and Electronic Funds Transfer (EDI/EFT), and the Presidential Review Directive (PRD) Working Group on Stresses in Government/University Relations. Through ONR's leadership, the FDP began as the Florida Demonstration Project and now is nationwide with 11 federal agencies and 65 university members. Many changes to the Federal Government's policies for research awards flowed from the FDP. The National Performance Review (NPR) applauded the FDP common set of grant terms and conditions for all agencies and cited the FDP as a model for reinventing government. The PRD Working Group is an ongoing interagency effort directed by the President through his National Science and Technology Council. Its tasking is to make recommendations for reducing the stresses in the Government-University relationship. ONR was requested by the Director, Defense Research and Engineering to participate because of the totality of ONR involvement and understanding of the programmatic, funding and administration aspects of Federally sponsored research at universities. No other PRD member brings this broad perspective of Federal research to the table.

The types of acquisition reform leadership ONR has demonstrated in the past decade reflect not only the excellence of its G&CAS organization, but also their ability to develop and execute, in conjunction with ONR leadership, policies advancing DoD's research mission. Separating this function from ONR would make it much less likely for such initiatives to continue in the future, to the detriment of DoD's research mission.

Facilitation of centralization of contract payment process. The ONR-developed EDI/EFT process was installed in Defense Finance Accounting System (DFAS)-Charleston Operating Location when this installation was designated as the disbursing office to pay all Navy university contract and grant vouchers. Because of EDI/EFT and a DFAS location dedicated to university payments, there are no unmatched disbursement problems with Navy university payments. In 1997 the ONR EDI/EFT system was selected to be the DoD system for processing all 6.1 funded invoices for payment from educational institutions and nonprofit organizations. Both CAS and financial management components of ONR continue to partner with DFAS and the research community to enhance billing, payment, accounting and other business systems, processes and operations.

Supervisors of Shipbuilding, Conversion and Repair (SUPSHIPs)

The SUPSHIPs provide a seamless, one stop, totally integrated approach to managing all facets of shipbuilding and ship repair contracts within the Navy. The benefits of retaining CAS functions within the SUPSHIPs include:

a. The SUPSHIPs are the independent "eyes and ears" on the waterfront for the Assistant Secretary of the Navy (Research, Development and Acquisition) (ASN(RD&A)). They also represent the Navy's technical, business and contracting positions on-site at the various shipbuilding and ship repair yards. The SUPSHIPs provide one face to the shipbuilding and ship repair industry. The SUPSHIPs provide consistency and uniformity in policy and practices with this unique, specialized business sector of shipbuilding and ship repair firms. Transfer of SUPSHIP CAS functions to DCMC would result in two faces to industry.

b. The SUPSHIPs are primarily field technical and engineering activities with CAS as one aspect of a broader, integrated mission. This on-site approach has evolved commensurate with the unique industry that SUPSHIPs oversee and the fleet customers they serve. They are uniquely situated to manage the integration of various contractor personnel with ship's force, shipyard workers, and other Government personnel performing the myriad of activities necessary to ensure an integrated, operational, combat ready and cost effective product to the fleet. Additionally, the SUPSHIPs are experts in dealing with the ship's crew which remains aboard during maintenance periods and continues to work and train on the ship as it undergoes repairs. The ship's crew must accomplish their own repair package concurrent with the contractor.

c. The SUPSHIP staff has integrated CAS/non-CAS functions and tasks as part of its daily responsibilities. As evidenced in the prior DoD studies, these CAS functions are not readily severable from the non-CAS functions:

(1) The joint Defense Logistics Agency (DLA)/Navy Study of 7 December 1990 concluded, "While the SUPSHIPs perform Contract Administration, it is not readily severable from the non-CAS functions assigned to the SUPSHIPs... The team concluded that the functions are so intertwined down to the individual employee level, that separation would be extremely difficult."

(2) The joint Office of Secretary of Defense (OSD)/DLA/Navy Study of November 1992 concluded, the "performance of CAS is not readily severable from the non-CAS functions performed by the SUPSHIPs. Performance of these specific tasks have been so integrated that the majority of assigned personnel perform both CAS and non-CAS functions as part of their daily duties... Additionally, "The separation and transfer of CAS and delegated CAS functions for both new construction and repair is possible but would not result in a more cost effective or operationally responsive organization." The team's conclusion was, "There would be significant risk to successful mission performance for both CAS and non-CAS functions if SUPSHIPs responsibilities were split."

d. The present combination of CAS and non-CAS functions at SUPSHIPs is the most cost effective way to administer

shipbuilding and ship repair contracts. The joint study of November 1992 concluded, the "cost savings cited in DMRD 916 are not achievable. The transfer would require more, not less resources." The DoDIG draft report presents no evidence that the situation has changed.

e. The SUPSHIPs have expertise with the numerous statutes and regulations that are unique to the shipbuilding and ship repair industry (see attachment A). They routinely interface with local environmental authorities on such issues as disposal of Navy and contractor generated hazardous waste, and issues associated with the impact of work on the marine environment. While DCMC also deals with statutes and regulations for large, complex projects, those relevant to the waterfront industry are very different from those for other industries.

f. The SUPSHIPs have downsized and streamlined their operations and are extremely efficient in performing their CAS responsibilities. Based on the DoDIG report, during the period from 1990 to 1997, DCMC downsized by approximately 43%. However, it should be noted that the SUPSHIPs downsized by 50% during the same period.

g. With their integration of technical and contractual capabilities, the SUPSHIPs have the unique and essential ability to simultaneously handle the Administrative Contracting Officer and Procuring Contracting Officer functions for ship repair availabilities. The SUPSHIPs perform the engineering work to define the work package used in most ship overhaul solicitations and also award most ship overhaul and repair contracts. Since the baseline work package is created up to six months prior to commencement of work and often while the ship is deployed or otherwise at sea, machinery and spaces not fully available for detailed review must undergo an "open and inspect" upon starting overhaul. Here, the true condition and degree of overhaul required is discovered, which often results in areas of new work. The "open and inspect" process continues throughout the overhaul as physical progress is made through the ship's systems. The SUPSHIPs must develop specifications, generate Government estimates and negotiate changes with the contractor in a sole source environment for this work on a daily basis. Their efforts ensure ship availabilities are completed within cost and on schedule to meet mission commitments.

h. Contrary to the DoDIG draft report concerns, appropriate contracting independence exists in the Navy's current system. All of the Navy's shipbuilding projects are managed by Program Executive Officers (PEOs), who report directly to ASN(RD&A). The customers for ship repair are the Fleet and the respective Type Commanders, all of whom report up the chain of command to the Chief of Naval Operations. SUPSHIPs report to the Commander, NAVSEA. An example of SUPSHIPs' independence is evidenced by the SUPSHIP generated "Bellringer" alerts. A "Bellringer" addresses issues of high visibility, immediate crises, or unusual "need to know" matters which the

SUPSHIPs send directly to the Undersecretary of Defense for Acquisition and Technology when conditions warrant.

Conclusion:

Based on the analysis of the significant risks and potential benefits summarized above, the Navy recommends these DODIG recommendations not be issued. The SUPSHIP CAS functions should not be separated from the non-CAS functions, and the interest of DoD will be best served by retaining at ONR the GLCAS functions currently being performed there.

As a final note, a factual correction is required to the organization and staffing at ONR noted on page 11 of the report and in Appendix D. Since the DODIG evaluation, the ONR GLCAS organization has reduced from 99 to 85 personnel, as shown on the following page.

Organization and Staffing for the Office of Naval Research

	Staffing
[redacted]	
Director's Office	2
Field Ops Branch	2
Indirect Costs Branch	5
Subtotal	9
[redacted]	
Atlanta	14
Boston	14
Chicago	14
San Diego	14
Seattle	12
Subtotal	68
[redacted]	
Boston	4
Subtotal	4
[redacted]	
Albuquerque	1
Austin	1
Boston	1
Chicago	1
Subtotal	4
[redacted]	85

Listing of Regulations related to Shipbuilding and Ship Repair

1) 13 C.F.R. §121.201 size standards used to define small business concerns

2) 20 C.F.R.§701.301 Longshoremen's and Harbor Workers' Compensation Act and Related Statutes; definitions and use of terms

3) 29 C.F.R. §1910.15 Shipyard employment

4) 29 C.F.R. §1915.2 Occupational Safety and Health Standards for Shipyard Employment Scope and application of subpart (applies to all ship repairing and shipbuilding)

5) 29 C.F.R. §1915.4 Occupational Safety and Health Standards for Shipyard Employment: definitions

6) 29 C.F.R. §1915.31 Occupational Safety and Health Standards for Shipyard Employment: Surface Preparation and Preservation; scope and application of subpart (applies all to ship repairing and shipbuilding)

7) 29 C.F.R. §1915.51 Ventilation and protection in welding, cutting, and heating

8) 29 C.F.R. §1915.52 Fire prevention

9) 29 C.F.R. §1915.53 Welding, cutting and heating in way of preservative coatings

10) 29 C.F.R. §1915.54 Welding, cutting, and heating of hollow metal containers and structures not covered by 1915.12

11) 29 C.F.R. §1915.55 Gas welding and cutting

12) 29 C.F.R. §1915.56 Arc welding and cutting

13) 29 C.F.R. §1915.57 Uses of fissionable material in ship repairing and shipbuilding

14) 29 C.F.R. §1915.71 Scaffolds or staging

15) 29 C.F.R. §1915.72 Ladders

16) 29 C.F.R. §1915.73 Guarding of deck openings and edges

17) 29 C.F.R. §1915.75 Access to and guarding of dry docks and marine railways

18) 29 C.F.R. §1915.76 Access to cargo spaces and confined spaces

Attachment A

19) 29 C.F.R. §1915.77 Working surfaces

20) 29 C.F.R. §1915.91 Housekeeping

21) 29 C.F.R. §1915.92 Illumination

22) 29 C.F.R. §1915.93 Utilities

23) 29 C.F.R. §1915.94 Work in confined or isolated spaces

24) 29 C.F.R. §1915.95 Ship repairing and shipbuilding work on or in the vicinity of radar and radio

25) 29 C.F.R. §1915.96 Work in or on lifeboats

26) 29 C.F.R. §1915.97 Health and sanitation

27) 29 C.F.R. §1915.98 First Aid

28) 29 C.F.R. §1915.111 Gear and Equipment for Rigging and Materials Handling; Inspection

29) 29 C.F.R. §1915.112 Ropes, chains and slings

30) 29 C.F.R. §1915.113 Shackles and hooks

31) 29 C.F.R. §1915.114 Chain falls and pull lifts

32) 29 C.F.R. §1915.115 Hoisting and hauling equipment

33) 29 C.F.R. §1915.116 Use of gear

34) 29 C.F.R. §1915.117 Qualifications of operators

35) 29 C.F.R. §1915.118 Tables

36) 29 C.F.R. §1915.131 General precautions

37) 29 C.F.R. §1915.132 Portable electric tools

38) 29 C.F.R. §1915.133 Hand tools

39) 29 C.F.R. §1915.134 Abrasive wheels

40) 29 C.F.R. §1915.135 Powder actuated fastening tools

41) 29 C.F.R. §1915.136 Internal combustion engines, other than ship's equipment

42) 29 C.F.R. §1915.161 Scope and application of subpart (applies to ship repairing and shipbuilding)

43) 29 C.F.R. §1915.171 Scope and application of subpart (applies to ship repairing and shipbuilding)

44) 29 C.F.R. §1915.181 Electrical circuits and distribution boards

45) 29 C.F.R. §1915.1001 Asbestos

46) 29 C.F.R. §1926.30 Shipbuilding and ship repairing

47) 32 C.F.R. §770.54 Entry Regulations for Portsmouth Naval Shipyard Portsmouth, New Hampshire

48) 40 C.F.R. Pt. 63, Suppl II, Appendix B National Emission Standards for Shipbuilding and Ship Repair)

49) 40 C.F.R. §63.780 National Emissions Standards for Shipbuilding and Ship Repair

50) 40 C.F.R. §63.781 National Emission Standards for Shipbuilding and Ship Repair; Applicability

51) 41 C.F.R. §50-204.2 General safety and health standards

52) 41 C.F.R. §101-18.104-2 Categorical space delegations

53) 41 C.F.R. §101-47.103-8 Industrial property

54) 48 C.F.R. §19.102 Small Business Programs; Size standards

55) 48 C.F.R. §19.1005 Small Business Programs: Applicability (non nuclear ship repair-including overhauls and conversions)

56) 48 C.F.R. §25.402 Foreign Acquisition: Policy

57) 48 C.F.R. §32.113 Customary contract financing

58) 48 C.F.R. §42.302 Contract administration functions

59) 48 C.F.R. §206.302-2 Unusual and compelling urgency

60) 48 C.F.R. §217.7102 Special Contracting Methods: Master Agreement for Repair and Alteration of Vessels: General

61) 48 C.F.R. §232.102 Description of contract financing methods (progress payments based on percentage or stage of completion are authorized only for contracts for construction shipbuilding and ship conversion, alteration, or repair)

62) 48 C.F.R. §253.204-70 DD Form 350, Individual Contracting Action Report

63) 48 C.F.R. §432.102 Description of contract financing methods

64) 48 C.F.R. §1217.7000 Special Contracting Methods; Fixed Price Contracts for Vessel Repair, Alteration, or Conversion; Clauses

65) 48 C.F.R. §1252.217-73 Inspection and manner of doing work

66) 48 C.F.R. §1309.106-70 Preaward surveys for ship construction, ship alteration, and ship repair

67) 48 C.F.R. §1317.7001 Special Contracting Methods; Contracts for Ship Construction, Ship Alteration, and Ship Repair; Solicitation provisions and contract clauses

68) 48 C.F.R. §1332.102 Description of contract financing methods

69) 48 C.F.R. §1352.217-90 Inspection and manner of doing work

70) 48 C.F.R. §1352.217-96 Liability and insurance

71) 48 C.F.R. §1352.217-99 Department of Labor Occupational Safety and Health Standards for Ship Repairing

72) 48 C.F.R. §1352.217-107 Changes- Ship repair

73) 48 C.F.R. §1352.217-108 Default- Ship repair

74) 48 C.F.R. §1352.217-109 Insurance requirements

75) 48 C.F.R. §5243.105-90 Adjustments to prices under shipbuilding contracts

76) 48 C.F.R. §5243.105-91 Contract Modifications; definitions

77) 48 C.F.R. §5243.105-94 Contract Modifications; solicitation provision and contract clause

78) 48 C.F.R. §5252.243-9000 Notification of applicability of 10 U.S.C. §2405

Listing of Statutes Relating Solely to Shipbuilding and Ship Repair
10 U.S.C. §2307(g) Contract financing; certain Navy contracts

10 U.S.C. §2405 Limitation on adjustment of shipbuilding contracts

10 U.S.C. §2534 (a)(3) Miscellaneous limitations on the procurement of goods other than United States goods; Components for naval vessels

10 U.S.C. §7291 Classification

10 U.S.C. §7292 Naming

10 U.S.C. §7294 Suspension of construction in case of treaty

10 U.S.C. §7297 Changing category or type: limitations (naval vessels)

10 U.S.C. §7299 Contracts: applicability of Walsh-Healey Act

10 U.S.C.§7299a Construction of combatant and escort vessels and assignment of vessel projects

10 U.S.C. §7304 Examination of vessels; striking vessels from Naval Vessel Register

10 U.S.C. §7305 Vessels stricken from Naval Vessel Register: sale

10 U.S.C. §7306 Transfer by gift or otherwise, authorization, maintenance, cost, notice

10 U.S.C. §7307 Disposal to foreign nations

10 U.S.C. §7308 Chief of Naval Operations-certification required for disposal of combatant vessels

10 U.S.C. §7309 Construction of vessels in foreign shipyards; prohibition

10 U.S.C. §7310 Overhaul, repair etc. of vessels in foreign shipyards: restrictions

10 U.S.C. §7311 Repair or maintenance of naval vessels; handling of hazardous waste

10 U.S.C. §7313 Ship overhaul work: availability of appropriations for unusual cost overruns and for changes in the scope of work (competition between private and public shipyards)

10 U.S.C. §7314 Overhaul of naval vessels: competition between public and private shipyards

10 U.S.C. §7362 Acquisition and transfer of vessels and equipment

33 U.S.C. §901 et seq. Longshore and Harbor Workers' Compensation

Defense Logistics Agency Comments

DEFENSE LOGISTICS AGENCY
HEADQUARTERS
8725 JOHN J. KINGMAN ROAD, SUITE 2533
FT. BELVOIR, VIRGINIA 22060-6221

8 OCT 1997

IN REPLY REFER TO DDAI

MEMORANDUM FOR ASSISTANT INSPECTOR GENERAL FOR AUDITING
DEPARTMENT OF DEFENSE

SUBJECT: Draft Report on Consolidation of DoD Contract Administration Services (Project No. 6OC-9028)

This is in response to your August 7, 1997, subject draft report. For any questions, call Dave Stumpf, 767-6266.

JEFFREY GOLDSTEIN
Chief (Acting), Internal Review

Encl

cc:
AQBE
AQBF

SUBJECT: Consolidation of DoD Contract Administration Services (Project 6OC-9028)

FINDING: Delegation of DoD Contract Administration Services to the Defense Contract Management Command.
The Army Ammunition Plant (AAP), the Office of Naval Research (ONR), and the U. S. Navy Supervisor of Shipbuilding, Conversion and Repair (SUPSHIP), with the assistance of their headquarters offices, currently retain CAS responsibilities, even though the DCMC can provide those services. This condition exists because prior studies of the SUPSHIP and AAP concluded it was more economical and provided greater control not to separate contract administration functions from the overall operations of the organizations. Also, the ONR had specialized skills not available within the DCMC. By retaining CAS responsibilities rather than delegating them to the DCMC, the DoD is not able to achieve the economies of scale, consistent application of contract administration policies, or independence of the contract administration function envisioned by the establishment of DCMC as a single DoD contract administration organization. The arguments against delegation of CAS responsibilities to the DCMC are similar to those used at the time of formation of the DCAA in 1965. Presently, DCAA provides DoD contracting officers with all contract audit and financial advisory services. The success DCAA has had in this role could similarly be obtained by the DCMC.

DLA COMMENTS: The DoDIG report determined that DCMC is capable of performing the CAS responsibilities currently being conducted by the AAP, ONR and SUPSHIP. DCMC was not involved in the review of these organizations and it has been some time since we have looked at the feasibility of consolidating these organizations with DCMC. CAS function consolidations have historically proven to save costs, however, the report lacks the detailed analysis of benefits to be gained by all parties involved. In addition, the report remains silent on the centrally performed non-CAS functions performed by the military services (facilities, environment, safety, etc.). We recommend a full cost benefit analysis be performed to support each of the recommendations. If it is decided to transfer CAS functions to DCMC, we would need to ensure that all resources (FTEs, offices, etc) are transferred as well.

ACTION OFFICER: LT Bruce A. Rivers, SC, USN, AQBF, 767-2442
REVIEW/APPROVAL: Mr. Gary S. Thurber, Deputy, DCMC
COORDINATION: Jeffrey Goldstein, DDAI

DLA APPROVAL: 8 OCT 1997
For Robert Chamberlain, DD
JEFFREY GOLDSTEIN
Chief (Acting), Internal Review

Final Report Reference

Deleted

SUBJECT: Consolidation of DoD Contract Administration Services (Project 6OC-9028)

Recommendation No. 1: We recommend the Under Secretary of Defense for Acquisition and Technology direct the Defense Acquisition Regulations Council to eliminate the Defense Federal Acquisition Regulation Supplement 242.203(a)(i)(B), which authorizes the Office of Naval Research to retain administration of contracts for research and development with universities.

DLA Comments: Because DCMC currently administers grants and other transactions from our geographic offices, the opportunity for small savings may exist. Grant CAS could be performed through our geographic offices and the field ONR reps could be transferred on a one for one basis. We recommend a full cost benefit analysis be performed, with DCMC's participation, to determine the quantifiable and non-quantifiable benefits of the transfer of these functions.

Disposition: Action is considered complete.

Action Officer: LT Bruce A. Rivers, DC, USN, AQBF
Review/Approval: Mr. Gary S. Thurber, Deputy, DCMC
Coordination: Jeffrey Goldstein, DDAI 10/7

DLA APPROVAL: 8 OCT 1997

For Eaton Chamberlain, DD
JEFFREY GOLDSTEIN
Chief (Acting) Internal Review

Final Report Reference

SUBJECT: Consolidation of DoD Contract Administration Services (Project 6OC-9028)

Recommendation No. 2: We recommend the Under Secretary of Defense for Acquisition and Technology transfer contract administration responsibility for the U. S. Army Ammunition Plants from the Army to the Defense Contract Management Command.

Revised

DLA Comments: As stated in the DoDIG report, the AAPs have a mixture of both CAS and non-CAS functions in their workload. These functions become extremely difficult to separate to the AAP locations and therefore place the Army in a better position to achieve savings due to commingled CAS and non-CAS work. In addition, there are a number of other support staff in Rock Island to handle significant issues such as facilities, safety and the environment which are not mentioned in the report. Because of the unique nature of business, there does not appear to be a significant opportunity for DCMC to make further savings from consolidation. Moreover, the transfer may entail non-traditional functions outside of the DCMC mission (e.g. environment "supersite" facility management).

Disposition: Action is considered complete.

Action Officer: LT Bruce A. Rivers, SC, USN, AQBF, 767-2442
Review/Approval: Mr. Gary S. Thurber, Deputy, DCMC
Coordination: Jeffrey Goldstein, DDAI 10/7

DLA Approval: 8 OCT 1997
For Ronald Chamberlin, DD
JEFFREY GOLDSTEIN
Chief (Acting), Internal Review

Defense Logistics Agency Comments

Final Report Reference

Revised

SUBJECT: Consolidation of DoD Contract Administration Services (Project 6OC-9028)

Recommendation No. 3: We recommend the Under Secretary of Defense for Acquisition and Technology transfer contract administration responsibility for the Office of Naval Research and the U.S. Navy Supervisor of Shipbuilding, Conversion and Repair, from the Navy to the Defense Contract Management Command.

DLA Comments: As stated in the DoDIG report, SUPSHIPS has a mixture of CAS and non-CAS functions in their workload. The integrated CAS/non-CAS functions performed by SUPSHIP present a single Navy image to the shipbuilding industry and is a very effective approach to managing shipbuilding and ship repair contracts. These functions become extremely difficult to separate at the SUPSHIP locations and therefore place the Navy in a better position to achieve savings due to commingled CAS and non-CAS work. Moreover, there are a number of other support staff in Crystal City to handle significant issues such as facilities, safety and the environment which are not mentioned in the report. The DoDIG report also does not mention the daily on site controls and oversight performed by the Navy representatives during ship construction and overhaul. Because of the unique nature of industry, there is no significant opportunity for DCMC to make further savings solely from consolidation.

Disposition: Action is considered complete.

Action Officer: LT Bruce A. Rivers, SC, USN, AQBF, 767-2442
Review/Approval: Mr. Gary S. Thurber, Deputy, DCMC
Coordination: Jeffrey Goldstein, DDAI 10/7

DLA Approval: 8 OCT 1997
FOR ROBERT CHAMBERLAIN
JEFFREY GOLDSTEIN
Chief (Acting), Internal Review

Evaluation Team Members

This report was prepared by the Contract Audit Directorate, Office of the Assistant Inspector General for Policy and Oversight, DoD.

Maurice G. Nestor
Michael A. DiRenzo
Kimberly A. Gray
Thomas M. Schultz
Nancy C. Cipolla
Ana A. King