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UNITED STATES GENERAL ACCOUNTING OFFICE
WASHINGTON, D.C. 20548



DEFENSE DIVISION

MAR 17 1971

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Dear Mr. Secretary:

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On July 1, 1970, we sent you, for your review and comments, a draft of a proposed report to the Congress on problems in the award and administration of contracts with Pacific Architects and Engineers, Inc. (doing business as AMPAC Maintenance Company), for operation and maintenance of Government property in Thailand. By letter dated October 20, 1970, we received the Department of the Army's position statement on the draft report (OSD Case 3141).

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We have given careful consideration to the actions taken and to be taken as presented in the Army's position statement with reference to our proposals concerning the matters that appeared to need corrective action, and we have decided not to submit a formal report on our review to the Congress. We are, however, sending a copy of this letter to the Chairman, Permanent Subcommittee on Investigations, Senate Committee on Government Operations, because of his expressed interest in these contracts.

The corrective actions proposed by us as set forth in the report draft, the Army's related comments, and our evaluation of the Army's comments are summarized in this letter.

Our proposals for corrective actions resulted from our review of the operations of AMPAC under cost-plus-a-fixed-fee contracts for management, operation, maintenance, and repair of Government property in Thailand. These AMPAC contracts were awarded and administered by the U.S. Army Procurement Office, Bangkok, Thailand. They aggregated about \$35 million in the 4-year period ended June 30, 1970.

The Army concurred in principle with our proposals and had taken appropriate corrective actions. The Army stated also that personnel in the field appreciated the technical advice, assistance, and recommendations provided during the course of our audit in Thailand.

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Our proposals and the Army's positions were as follows:

GAO proposal--The Army reconsider the need for requiring that Government-owned equipment to be furnished to contractors overseas be listed in a table of distribution and allowances and establish new guidelines to expedite obtaining essential items of equipment for contractors' use.

The Army concurred with our proposal and stated that they were reviewing the requirement for contractors to utilize tables of distribution and allowances as a basis for requisitioning and possession authority for Government property and supplies.

We believe that one of the reasons contractors are utilized by the military agencies to perform essential services is the desire for operational flexibility and that the above restriction blocked the contractor's ability to perform in an economical manner.

GAO proposal--Army contracting officials intensify their program of surveillance of AMPAC contracts in the area of personnel administration to ensure contractor compliance with the terms of the contracts.

The Army concurred with this proposal and stated that the following actions had been taken or were being taken.

"(1) The DCAA Auditor has been requested to continue audits of the contractor performance in this area and will provide reports to the Contracting Officer.

"(2) The Army Civilian Personnel Office has initiated informal reviews and will continue to do so.

"(3) U.S. Army Manpower Survey Office (USARPAC) reviewed the complete manning for the follow-on contract and approved the proposal.

"(4) The Contracting Officer's Representatives have been directed to monitor this area closely to prevent future errors. The Contractor has initiated the control procedures required. This problem was a factor in previous contracts as pointed out by GAO and has been corrected."

GAO proposal--The Army strengthen the procedures for ensuring that contractors' procurement systems are reviewed and approved in accordance with military regulations prior to the expenditure of large amounts of money.

The Army concurred with this proposal and stated that (1) a property administrator had been assigned, (2) a supply specialist position had been established and was in the process of being filled, and (3) new procurement procedures had been established.

GAO proposal--The Army Procurement Office, Bangkok, consider procuring all items of material required for use by AMPAC, except items needed on an emergency basis.

Although the Army did not agree with this proposal applying to all items of material required for use by AMPAC, they stated that the Army would control local procurement by the contractor. Specifically, they advised that the contract management office would be in the same building with the U.S. Army Procurement Office and that all local purchases would be cleared through that Office to ensure that prices quoted were the lowest prices available.

In regard to procurement from the United States, the Army presented convincing reasons why it would be more desirable and economical for such items to continue to be procured directly by the contractor.

GAO proposal--Army officials review AMPAC's property control system and transfer to AMPAC accountability for Government property under its control.

The Army concurred with this proposal and stated that AMPAC's property control system was reviewed and property accountability was transferred to the contractor on February 17, 1970.

GAO proposal--The Army require AMPAC to take aggressive action to (1) purge unneeded supplies from its system, (2) correct its stock records and reports, (3) strengthen inventory procedures, and (4) ensure that materials transferred to AMPAC are promptly taken into accountability.

The Army concurred with this proposal and stated that the following actions had been taken or were being taken.

"(1) The Contractor has purged excess supplies from the system and has reduced the inventory to 1.2 million dollars.

"(2) The Army has initiated Operation Clean Sweep, a drive to eliminate not only excess equipment, but also to eliminate unused or marginally required items from the command.

"(3) The Contractor initiated corrective action while the GAO team was still in-country to correct the stock record cards and to strengthen inventory procedures. New SOP's have been developed and supply actions were mechanized to provide improved control.

"(4) The Contractor has initiated monthly scheduled, progressive, closed warehouse, inventories in all areas.

"(5) AMPAC has been directed to refrain from accepting or from soliciting supplies from sources other than those authorized.

"(6) The Army Commander has emphasized the proper channels for turn-in of unneeded supplies and

equipment through commander's briefings and such programs as Operation Clean Sweep."

GAO proposal--The Army investigate the circumstances surrounding the construction-type projects discussed in this report which were in excess of the \$25,000 limitation on the use of operation and maintenance funds for such projects and ensure that required corrective action was taken.

The Army established a board of officers, in February 1970, to investigate the circumstances surrounding the construction-type projects we had discussed. After investigation the board determined and reported that no violation of section 3679 Revised Statutes had occurred, that incremental construction had not been performed, and that construction projects had not been classified as maintenance projects, and stated that the circumstances surrounding the construction in question did not merit further investigation.

We believe that the Army has taken reasonable actions in this matter and we consider this point closed.

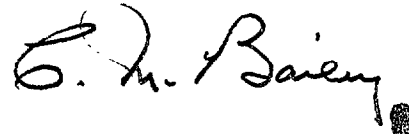
With regard to our other proposals, we believe that the Army's comments concerning actions taken or planned, as summarized above, were responsive to our proposals. To the extent that the corrective actions had not yet been completed, we suggest that you have the Army advise you of the specifics upon completion of the actions.

The contractor furnished us comments on our draft report on August 25, 1970. In these comments, which were very lengthy, the contractor disagreed with much of the detail of our findings. In view of the attention directed by the Army to improving policies and procedures to alleviate the problems we noted, we believe that no constructive purpose would be served by discussion of the contractor's comments.

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Copies of this report are also being sent to the Secretary of the Army and to the Director, Defense Contract Audit Agency.

Sincerely yours,

A handwritten signature in cursive script, appearing to read "E. M. Bailey". The signature is written in dark ink and is positioned above the typed name.

Director, Defense Division

The Honorable
The Secretary of Defense