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

DEFENSE DIVISION

B-125049

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Dear Mr. Secretary:

We have completed our review of contract terminations in the Department of Defense. Our work was performed at various procurement activities of the Army, Navy, and Air Force as well as at several regional offices of the Defense Contract Administration Services.

The objectives of our review were to determine the causes of terminations, whether the terminations could have been prevented, and whether the type of termination action taken (default or convenience) best served the Government's interests under the circumstances.

In fiscal year 1970, 7,366 military prime contracts were fully or partially terminated, continuing a progressive increase in the number of terminations which began in fiscal year 1967. The contract prices of items terminated also showed a substantial increase over prior periods.

We selected 46 contracts for review but eliminated 13 of these contracts when we identified that the terminations resulted from changes in requirements. We concluded that in 19 of the remaining 33 contracts, which were either terminated or considered for termination, the actions taken were appropriate. These terminations included 15 that were for convenience and four in which the contractor was held in default.

Of the remaining 14 contracts, eight were terminated for convenience and three were terminated for default. The other three were considered for default terminations but were permitted to be completed after the Government concluded that termination offered no advantage. Unnecessary costs of about \$6 million (\$5.9 million for settlement and \$122,000 for excess procurement costs) were incurred on nine of these 14 contracts. Following are some reasons for the incurrence of these unnecessary costs: a contractor's slow progress was not noted, problems regarding specifications were not resolved, delivery dates were not revised properly or newly established dates were unrealistic, unacceptable items were paid for, action to terminate a contractor for default was delayed, and the Government's legal position in regard

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BEST DOCUMENT AVAILABLE

CONTRACTS REVIEWED IN WHICH
IMPROPER ACTIONS WERE NOTED

<u>Contract number</u>	<u>Total contract price</u>	<u>Contract price of items terminated</u>	<u>Settlement costs</u>	<u>Excess repro- cure- ment costs</u>
Convenience terminations:				
F09603-68-D-0245	\$ 47,499.20	\$ 12,446.36	\$ (a)	\$ 13,838.83
AF09(603)-49601	46,061.60	46,061.60	(a, b)	49,660.56
N00039-68-C-1550	479,840.00	479,840.00	479,840.00	-
AF33-657-68-C-0146	376,450.00	376,450.00	87,409.38	-
AF33-657-67-C-0344	5,683,000.00	5,683,000.00	4,977,224.00	-
F41608-69-C-5937	388,090.96	104,006.00	(a)	41,244.00
F34601-67-C-3874	998,976.00	998,976.00	220,000.00	-
DSA400-68-C-6093	<u>5,872,500.00</u>	<u>1,363,834.00</u>	<u>138,330.00</u>	<u>-</u>
Total	<u>13,892,417.76</u>	<u>9,064,613.96</u>	<u>5,902,803.38</u>	<u>104,743.39</u>
Default terminations:				
DA-36-039-AMC-09588(E)	1,345,944.60	187,163.34	-	17,837.47
DAAB05-69-C-1024	266,000.00	266,000.00	-	-
DA-36-039-AMC-10691(E)	<u>387,355.30</u>	<u>387,355.30</u>	<u>-</u>	<u>-</u>
Total	<u>1,999,299.90</u>	<u>840,518.64</u>	<u>-</u>	<u>17,837.47</u>
Considered for default but completed:				
AF09(603)-64855	341,239.70	-	-	-
AF09(603)-64014	33,938.08	-	-	-
F41608-68-C-9370	<u>171,782.08</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total	<u>546,959.86</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total	<u>\$16,438,677.52</u>	<u>\$9,905,132.60</u>	<u>\$5,902,803.38</u>	<u>\$122,580.86</u>

^aNo cost termination.^bThe contractor was paid \$15,225 for 90 unacceptable units.

EXAMPLES OF QUESTIONABLE ACTIONS
RELATED TO TERMINATIONSContract F09603-68-D-0245

The Government partially terminated for convenience, at no cost, this contract for the repair of radios, although it appeared that the contract should have been terminated for default because the contractor failed to meet delivery requirements. As a result, excess reprourement costs of \$13,800 were incurred.

Contract AF09 (603)-49601

The Government terminated for convenience, at no cost, this contract for aircraft map film projector parts more than 4 years after the first delinquency was noted and 2- $\frac{1}{2}$ years after reprourement of the parts took place. The Government had three opportunities to terminate the contract for default but did not do so. As a result, excess reprourement costs of \$49,660 could not be assessed against the contractor. Further the Government paid the contractor \$15,225 for 90 unacceptable units.

Contract AF33-657-67-C-0344

The Government increased this letter contract from two prototype units to four prototype units and 12 production units before the design and development problems on the first two prototypes had been resolved. The letter contract was never definitized, and the Government's maximum liability was increased from \$1 million to more than \$5.6 million as the contract requirements were increased. The contractor was unable to perform in accordance with the contract requirements, and the letter contract was terminated for the convenience of the Government at a settlement cost of \$4,977,224.

Contract F34601-67-C-3874

Action was not taken to terminate this contract for the procurement of radios until 7 months after the contractor failed to meet the first-article-testing requirements. As a result, the Government felt that it had lost the right to terminate for default and paid the contractor \$220,000 to settle a termination for convenience.

Contract DA-36-039-AMC-09588(E)

Although the Government knew that electron tubes procured under this contract contained a latent defect, action was not taken to terminate the contract for default until 9 months later. As a result, excess reprourement costs of \$17,837 were incurred.