
GAO

United States General Accounting Office

**Report to the Honorable
Michael DeWine, House of
Representatives**

December 1988

**AIR FORCE
CONTRACTING**

**Allegations Concerning
Procurement of a
Centrifuge Trainer**





**National Security and
International Affairs Division**

B-229792

December 5, 1988

The Honorable Michael DeWine
House of Representatives

Dear Mr. DeWine:

Your letter of July 6, 1988, requested that we review allegations made by KRUG International concerning Air Force solicitation F44650-88-R-0005 for the reprocurement of a centrifuge trainer, a device used to test and measure the effect of the force of gravity on pilots. KRUG alleged the following:

- The sale of the centrifuge trainer to the Air Force by the Environmental Tectonics Corporation (ETC) might be inconsistent with the purpose of the Foreign Military Sales (FMS) assistance program under the Arms Export Control Act. The trainer was originally manufactured by ETC for the government of Turkey and financed with FMS credits.
- The Air Force assisted ETC in obtaining the release of the centrifuge trainer from the government of Turkey.
- The centrifuge trainer was operated for some period of time for purposes other than qualification testing; thus, ETC provided a used item of equipment, which violates Federal Acquisition Regulation 52.210-7.
- A contractor that bid lower than ETC was not awarded the contract for the centrifuge trainer, even though it met the terms and conditions of the solicitation.

Our review showed the KRUG allegations were without merit. Our findings are discussed in more detail below.

**Solicitation and Award
of Contract for a
Centrifuge Trainer**

In July 1987 Air Force contract F44650-86-C-0002 for the procurement of a centrifuge trainer, which was awarded to KRUG in October 1985, was terminated for default. KRUG has filed an appeal with the Armed Services Board of Contract Appeals, protesting this termination on the basis that its performance was excusable and without its fault or negligence.

As a result of the termination, the Air Force issued solicitation F44650-88-R-0005 as a reprocurement for the centrifuge trainer. Three proposals were considered in response to the reprocurement solicitation, technical reviews were performed, and best and final offers were requested

and received. ETC was awarded the contract for the centrifuge trainer in February 1988.

Sale of Trainer Not Inconsistent With FMS Program

KRUG alleged that the sale by ETC to the Air Force of a centrifuge trainer originally manufactured for the government of Turkey and financed with FMS credits might be inconsistent with the purpose of the FMS credit assistance program under the Arms Export Control Act.

ETC fulfilled its contract obligation and delivered a centrifuge trainer to the Air Force in September 1988. The trainer provided by ETC had been manufactured for the government of Turkey under a commercial contract. (ETC built another trainer for Turkey to replace the one that was delivered to the Air Force.) The U.S. government was not a party to the ETC/Turkey contract.

During the manufacture of the first trainer, Turkey made payments to ETC using FMS credits, which are authorized under the FMS Financing Program. This program provides loans to help finance the purchase of defense articles and services by friendly foreign governments and international organizations. The Defense Security Assistance Agency was responsible for approving Turkey's request for loan financing and authorizing disbursement of loan funds to ETC when authorized by Turkey.

A Defense Security Assistance Agency official and Air Force officials told us that they do not know of any reason why ETC's sale of the first trainer to the Air Force would be inconsistent with the purpose of the FMS program. KRUG provided no rationale to support its allegation, and we are unaware of any reason why such a sale would be inconsistent with the purpose of the program.

Air Force Did Not Request Release of Trainer

KRUG alleged that the Air Force assisted ETC in obtaining release of the centrifuge trainer from the government of Turkey. An ETC official told us that the decision to provide the Air Force with the trainer was made solely by ETC. Air Force officials told us that they had not discussed the release of the trainer with either ETC or Turkish officials. We found no evidence during our review that any such discussions took place.

Air Force Considers Trainer to Be New

KRUG alleged that ETC provided a used item of equipment, which violates Federal Acquisition Regulation 52.210-7. The regulation states that contracting officials may insert into contracts a clause dealing with used or reconditioned material, residual inventory, and former government surplus property when appropriate. The clause provides that the contractor will not furnish any item or component that is used or reconditioned material, residual inventory resulting from terminated government contracts, or former surplus property, unless such item or component is authorized in writing by the contracting officer. This clause was included in the ETC/Air Force contract.

The manufacture of the centrifuge trainer sold to the Air Force was essentially completed in June 1987, and the trainer remained at ETC until it was delivered to the Air Force in September 1988. An ETC official told us that new parts and materials were used in the manufacture of the trainer. We examined the trainer's operating log maintained by ETC, which showed that the trainer had been operated primarily for testing. In addition, training and demonstration runs were recorded; however, the log showed that testing was also conducted during these runs. According to the log, total operating time for training and demonstration runs at ETC was about 7 hours.

Air Force officials, including the contracting officer, consider the trainer to be new and said that the limited operation of the trainer for training and demonstration purposes does not classify the trainer as used.

Contract Awarded on Factors in Addition to Price

KRUG alleged that a contractor that bid lower than ETC was not awarded the contract. As provided in the solicitation, price was only one of four factors considered in the selection process. Other factors were management, technical expertise, and delivery time. All offers were evaluated using these factors, and the Air Force determined that ETC's offer best satisfied its needs. According to the Air Force, the low offeror's proposal did not compare as favorably from a technical and managerial standpoint with the ETC proposal.

To review the allegations, we examined the contract files and other pertinent data at Langley Air Force Base, Virginia; the Assistant Secretary of Defense (Public Affairs), Washington, D.C.; and Air Force Headquarters, Washington, D.C.; and interviewed Department of Defense and Air Force officials cognizant of the procurement. We also reviewed relevant FMS program records and interviewed officials at the Defense Security

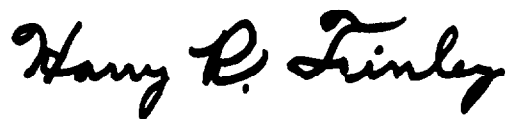
Assistance Agency, Arlington, Virginia. Additionally, we examined pertinent files and interviewed an official at ETC, Southampton, Pennsylvania.

As requested by your Office, we did not obtain official agency comments on this report. However, we discussed the results of our review with Air Force representatives responsible for the activities discussed in this report, and their comments have been incorporated as appropriate. We performed our work in September and October 1988 in accordance with generally accepted government auditing standards.

Unless you publicly announce its contents earlier, we plan no further distribution of this report until 5 days after its issue date. At that time we will send copies to the Secretaries of Defense and the Air Force and the Director, Office of Management and Budget. We will also make copies available to other interested parties upon request.

The major contributors to this report from my staff were Paul L. Jones, Associate Director; Richard J. Price, Group Director; and Harold C. Andrews, Advisor; and from our Norfolk Regional Office, Richard G. Payne, Regional Management Representative, and Joseph J. Radosevich, Evaluator-in-Charge.

Sincerely yours,



Harry R. Finley
Senior Associate Director