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Report to the Chairman, Subcommittee on Oversight of Government Management, Committee on Governmental Affairs, U.S. Senate

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U.S. NAVY/MILITARY SEALIFT COMMAND

Weak Contract Administration Led to Unsafe and Poorly Maintained Ships

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The Honorable Carl Levin
Chairman, Subcommittee on Oversight of
Government Management
Committee on Governmental Affairs
United States Senate

Dear Mr. Chairman:

This report responds to your request that we investigate allegations concerning the operation of nine Sealift tankers leased by the Department of Navy's Military Sealift Command (MSC) to transport jet fuel and other petroleum products to ports worldwide in support of U.S. military efforts. As agreed, we investigated whether (1) the ships' equipment had deteriorated because of inadequate maintenance and (2) the Sealift tankers were being operated unsafely due to unqualified and inadequate numbers of crew. Our investigation focused on the time period that International Marine Carriers, Inc. (IMC) has been operating the nine MSC Sealift tankers—April 1990 to May 1994.

Results in Brief

We found numerous adverse conditions on all nine tankers in the tanker-leasing program affecting the ships, the crews, the environment, and the program. First, MSC's lack of oversight of ship maintenance requirements caused the ships' conditions to deteriorate. The lack of maintenance, in turn, adversely affected the ships' safety and mission readiness. As of April 1994, this shortcoming had resulted in an additional cost to MSC, and thus the government, of approximately $20 million. Second, the lack of qualified and fully staffed crews contributed not only to oil spills with their adverse effects on the environment but also to the lack of mission security and efficiency. MSC failed to enforce the contract's crewing requirements and had no system to determine if the contractor was complying with the requirements.

These conditions occurred because of weaknesses in MSC's contract administration practices. These weaknesses included the absence of (1) a program manager, (2) a written designation of departmental responsibilities for the program, and (3) a Contracting Officer's Technical Representative (COTR) to monitor the contractor's performance from the contract's inception in 1990 until 1993. These problems have been compounded because they follow years of poor maintenance under the previous contract.

Background

MSC is responsible for the ocean transportation of Department of Defense supplies and equipment during both peace and war. During the Persian Gulf War, MSC's sealift capability was the bedrock of U.S. military strategy because more than 95 percent of the materials needed by U.S. forces to sustain such an effort were transported by ship.

MSC is responsible for the operation of 125 ships worldwide.[1] All are operated by civilian crews—54 are crewed by private companies pursuant to contracts with MSC; the rest, by federal civil service employees. Currently, MSC charters 16 tankers to fulfill U.S. defense fuel needs worldwide, both ashore and at sea. Nine, the subject of our review, are Sealift class tankers that were specifically built for, and chartered to, MSC for 20 years, 1975-95. The nine ships are the Sealift Atlantic, Sealift Pacific, Sealift Arabian Sea, Sealift China Sea, Sealift Indian Ocean, Sealift Mediterranean, Sealift Caribbean, Sealift Arctic, and Sealift Antarctic. They provide point-to-point fuel deliveries to U.S. defense bases around the world during peacetime and are equipped to transfer fuel to other ships at sea. At the end of the charter period, MSC must return the ships to the owners in the same condition as received, less "depreciation and normal wear and tear."

A contractor operates and maintains the ships. MSC awarded a 5-year fixed-price contract for about $170 million to IMC in April 1990. However, the contract allowed modifications that increased MSC's payments to IMC, as of April 1, 1994, to about $256 million—including reimbursables for fuel, upgrades, and other costs—with another year to go on the contract. During the 15 years prior to this contract, another contractor, Marine Transport Lines, Inc., operated the tankers under two consecutive contracts. The first was a 10-year cost-reimbursement contract; the second, a 5-year fixed-price contract. According to MSC officials, MSC decided to change contracting methods from a cost-reimbursement to a fixed-price approach to save funds. From the program's inception in 1975 to March 31, 1994, MSC had obligated $1.3 billion to charter and operate the nine tankers.

The current contract with IMC stipulates that the contractor is responsible for providing qualified, MSC-approved crews of 25 persons[2] for the safe,

[1]The ships transport fuel oil, jet fuel, and other petroleum products, as well as ammunition, equipment, and supplies. Some ships are dedicated to conducting oceanographic research, missile tracking, or cable laying and repairing.

[2]In 1992, an additional crew member—a fuel wiper—was added to each tanker's crew at MSC's expense.

worldwide operation of each of the nine tankers. The contractor is also responsible for performing routine and preventive maintenance to ensure the ships' continued effective operation and preserve their condition.

Prior GAO Work

In August 1973, we evaluated the Navy's decision to contract for the nine tankers to be built and then chartered.[3] Our report noted that, under the lease, the government would pay more than double the nine ships' purchase price. Navy officials then indicated that the Navy would have preferred to purchase new ships but entered the leasing agreement because it had been unsuccessful in obtaining congressional approval of the purchase funds. We also reported that the Navy had not been required to, and did not, obtain congressional authorization and approval to lease the ships for 20 years and commit the government to expending hundreds of millions of dollars in Operations and Maintenance funds. However, we believed that the magnitude of funds involved clearly warranted congressional input to the decision-making process.

Earlier MSC Recognition of Maintenance Problems

While we did not review the previous contract period, we found evidence that MSC was aware that the condition of the ships had both begun to deteriorate under the fixed-price contract with the first contractor as early as 1986 and continued to deteriorate throughout that contract's 5-year term.

In this regard, an MSC "Point Paper" dated January 26, 1986, noted that, approximately 6 months into the contract, the first contractor was neglecting to fund ship maintenance and repair in an effort to maximize profit or minimize losses. The "Point Paper" related this neglect to the fixed-price nature of the contract. According to a November 28, 1988, MSC memorandum on lessons learned from the first fixed-price tanker contract, ". . . [T]he maintenance, repair, and physical condition of the Sealift Tankers have suffered greatly under the [first contractor's] fixed price contract. We estimate that it will cost MSC $3-5 million per ship to reinstate the condition of the ships at contract turnover." Internal MSC reports in November 1988 also stated, "In a fixed-price ship operating contract it is not in a contractor's interest to perform up to MSC's standards and it is nearly impossible to make him do so. It is self-evident that the follow-on contract should not be a fixed-price operation and maintenance contract."

[3]Build and Charter Program for Nine Tanker Ships, GAO (B-174839, Aug. 15, 1973).

Further, in January 1989, an internal MSC report described the Sealift Antarctic as a fire and safety hazard and lacking in maintenance. Sealift Caribbean reports stated, "Mission reliability is questionable." "If a fire occurs it is doubtful it could survive, there would be a loss of ship, cargo, and possibly human life." The reports continued, "It was obvious the operating per diem being given to the contractor is not spent on the maintenance and upkeep." An internal MSC review of the Sealift Indian Ocean reported, "It is a complete waste of money to install equipment and reimburse the contractor for its maintenance if the equipment is deliberately neglected."

However, the contractor did not respond to contract discrepancy reports for any of the ships, and MSC did not enforce the contract provisions.

Lack of MSC Oversight of Preventive Maintenance Resulted in Deteriorating Ship Conditions

IMC, the current contractor, has not fully complied with, and MSC has not enforced, the preventive maintenance requirements of the contract. The poor condition of the ships has resulted in operational deficiencies that adversely affected the safety of the ships and their ability to perform assigned missions. Further, the ships' conditions have deteriorated to the extent that MSC has spent approximately $20 million of the $256 million contract cost to (1) upgrade the condition of the ships and (2) employ individuals on the ships just to wipe up excess oil.

Contract Maintenance Requirements Not Always Followed

The contract for the operation and maintenance of the Sealift tankers requires the contractor to ensure that all equipment and machinery on the ship be maintained in the highest state of readiness. More specifically, the contractor is required to maintain the ships' equipment and systems so as to provide continuing operation, prolong the life and preclude the breakdown of all machinery, and prevent undue equipment overhauls and the need for excessive corrective maintenance. However, MSC did not effectively ensure that the current contractor was providing preventive maintenance.

Contractor's Lack of Preventive Maintenance

At the inception of the IMC contract, MSC established the Shipboard Automated Maintenance Management (SAMM) system to be used on board each of the Sealift tankers. The system was to direct the contractor to periodically perform mandatory tests, inspections, and maintenance actions on equipment and systems. The contract requires that the contractor both provide monthly reports of completed maintenance

actions and keep on board a written record of tests, inspections, and maintenance conducted.

According to MSC records, the contractor repeatedly did not follow the SAMM system and did not always submit monthly reports. For example, MSC contract discrepancy reports reflected numerous instances in which SAMM reports were not submitted. Moreover, other records showed discrepancies between preventive maintenance reported to MSC and that recorded on the ships: monthly reports to MSC showed that numerous actions had been taken, but the ships' preventive maintenance records did not reflect these actions. For example, one captain told us that since he did not know how to use the SAMM system, he did not implement the maintenance schedule.

At one point, contractor noncompliance caused MSC to memorialize its complaints. An MSC contracting official wrote to the contractor, pointing out that the contractor had failed to complete required monthly preventive maintenance. Further, according to the message, the lack of the contractor's performance in preventive maintenance had been a continuing problem with all the ships, and the ships had not received the preventive maintenance for which MSC had paid.

Many of the crew members we interviewed on three of the Sealift tankers complained about the lack of preventive maintenance and the poor condition of equipment on the ships. According to one Captain, the lack of necessary preventive maintenance was dangerous, and not having good emergency equipment was a "crime." He also indicated that the contractor had not provided adequate absorbent pads to help contain oil spills. According to a seaman on the same ship, there was very little maintenance, rust all over the ship, and inadequate amounts of cleaning supplies. He related that 3 weeks prior to our interview, cargo boom cables had snapped because they were so brittle. Another seaman from this ship related that the company was spending "zero" on maintenance, which resulted in potential safety problems. He said that repairs were needed on brakes, winches, frozen hoses, pump valves, and metal decking grates. (See fig. 1.) Moreover, a seaman from another ship told us that the amount of maintenance on that ship "was just enough to keep the boat afloat."

Figure 1: Inoperative Winch on Sealift China Sea, March 15, 1992

Lack of Adequate Maintenance Causes Problems

IMC's inadequate maintenance of the nine tankers has contributed to operational problems, unsafe conditions, and expense to MSC.

Operational Problems

According to the contract, IMC is required to maintain the ships' readiness for all operational requirements. One important operational capability, especially during wartime and other emergencies, involves the ability to refuel other naval ships at sea. To ensure that the tankers maintain this capability, the contract stipulates that IMC must maintain refueling-at-sea equipment on each ship in good order and conduct quarterly

refueling-at-sea training sessions. The contractor is also required to perform quarterly testing of refueling rigs that are attached astern of the tankers. However, MSC inspection reports indicate that the refueling-at-sea equipment on many of the tankers was frequently inoperable. Many of these reports showed that components of this equipment were either frozen in place by rust or corrosion or that critical parts were missing.

These deficiencies adversely impacted the ships' capability to meet their mission. In this regard, during Operation Desert Storm, two of the tankers (Sealift Mediterranean and Sealift Caribbean) could not perform this important function when called upon because of inoperable refueling-at-sea equipment. Only within the past 1.5 years has MSC begun to fund needed repairs to these systems.

Further, failure to maintain the tankers led to additional costs, which were not covered by the contract, called "material condition upgrades." These upgrades included repairing machinery, replacing certain navigation equipment, and refurbishing winches. MSC records indicate that at various times between August 1991 and February 1993, each of the nine ships received unanticipated material condition upgrades and were out of service while being upgraded. During this time, they were unavailable to meet their mission objectives.

Unsafe Conditions

MSC did not inspect each ship quarterly as required by its Standard Operating Manual. Nevertheless, MSC records disclose numerous instances of unsafe operating conditions aboard the nine Sealift tankers.

These unsafe conditions included leaking oil; leaking fuel lines and fuel pumps; inoperable lifesaving equipment including life boats; poorly maintained or inoperable fire stations; deteriorated, damaged, or missing railings on the ships' weather decks; and improperly stored chemicals and lubrication oil. For example, we found life boats that could not be lowered and one life boat that was missing its drain plug. Further, the fire extinguishers on one ship were not operable; and safety and medical kits were missing.

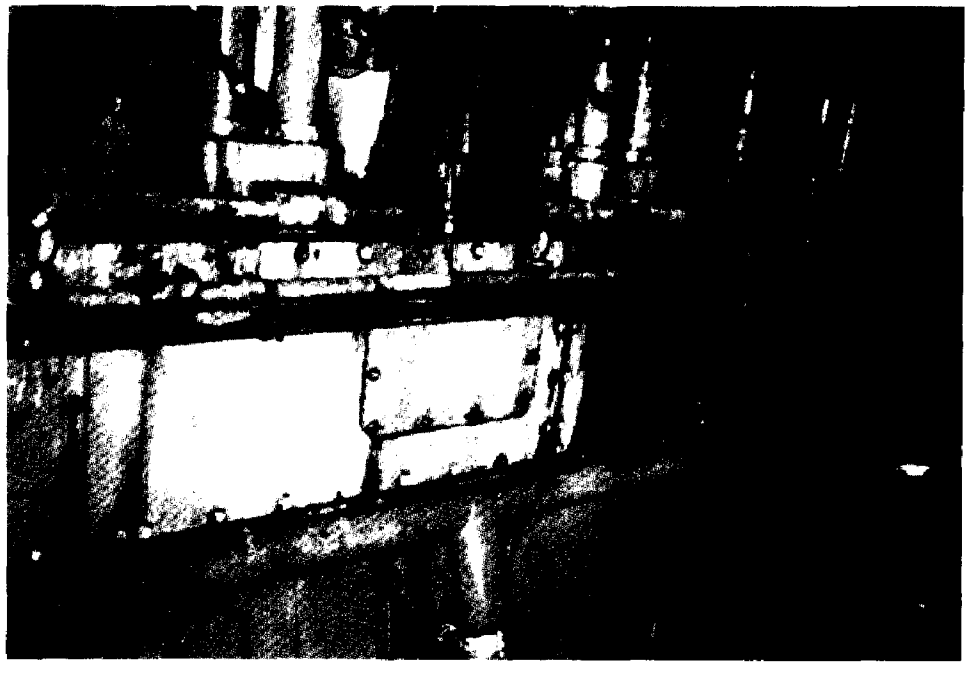
Crew members of one tanker also complained to us that a lack of gloves, boots, and respirators created health hazards for the crew when cleaning the cargo tanks. They frequently experienced nausea, running eyes and noses, and dizziness. Some crew members showed us blisters and burns on their feet and hands resulting, they said, from the lack of protective equipment.

However, one of the most serious recurring problems involved excessive oil leaks from machinery aboard the ships. (See figs. 2 and 3.) This created slippery conditions and fire hazards. For example, during an inspection of the Sealift Arabian Sea's engine room, an MSC inspector reported that a film of oil covered the decks, overhead areas, electrical boxes, and circuit boards. In another example, an MSC inspection of the Sealift Arctic revealed numerous safety deficiencies, including 4 inches of fuel oil and water in the pump room bilges. (See fig. 4.)

Figure 2: Sheet Used to Catch Oil Forced Out of Main Engine on Sealift Antarctic, October 15, 1993

Source: Engineering & Marine Consultants Inc., Issaquah, Wash.

Figure 3: Oil Leak, Main Engine on Sealift Arabian Sea, December 11, 1993



Source: Engineering & Marine Consultants Inc., Dec. 16, 1993, inspection report to USL Capital Corporation, San Francisco, Cal., and Citibank, N.A., New York, N.Y.

Figure 4: Oil in Bilge on Sealift Arabian Sea, December 11, 1993

Source: Engineering & Marine Consultants Inc., Dec. 16, 1993, inspection report to USL Capital Corporation, San Francisco, Cal., and Citibank, N.A., New York, N.Y.

Although the MSC Standard Operating Manual requires MSC to inspect each ship at least four times a year, MSC failed to fulfill this responsibility. Between contract award in April 1990 and September 16, 1992, MSC conducted only 29 inspections. The frequency of these inspections differed from ship to ship. While MSC inspected one ship six times during this period, it inspected another ship only once. Consequently, many of the previously mentioned unsafe conditions went unnoted by MSC officials.

Lack of MSC Follow-Up of Problems Noted

The limited number of MSC inspection reports reflected serious problems with the operation and maintenance of the ships. However, MSC took little or no action to enforce the provisions of the contract and to require corrective action of problems found during the inspections. The following examples demonstrate the problems cited in MSC's 1990-92 inspection reports and MSC's lack of follow-up:

- An April 20, 1991, MSC inspection of the Sealift Indian Ocean found an engine-room fire "just waiting to happen." Conditions included numerous leaks of fuel and lubrication oil, deplorable conditions topside, and 30 gallons of oil in the bilges. We found no record that MSC had requested corrective action.
- An October 6, 1991, inspection of the Sealift Arabian Sea discovered inoperative and missing equipment, no signs of maintenance, 5 inches of oil in the pump-room bilges, and engine-room personnel unfamiliar with operation and maintenance of equipment. The MSC inspector deemed IMC's performance unacceptable and the ship unsafe. While MSC requested that IMC take corrective action, we found no evidence of follow-up or that IMC had taken such action. However, after the ship had undergone a material condition upgrade in 1992, oil leaks continued as noted in recent inspections of the ship performed by two marine survey firms hired by the ship owners. (See figs. 3 and 4.)
- A November 14, 1991, MSC inspection of the Sealift Mediterranean discovered numerous deficiencies, including 3 inches of oil in pump-room bilges, and numerous oil leaks, including main engines that leaked 20 gallons of lubrication oil per engine per day. In addition, the inspector found that boiler controls had been bypassed. We found no record that MSC had requested corrective action.
- A January 9, 1992, inspection of the Sealift Atlantic found overall unsatisfactory conditions including leaks in the main engines, pumps, and other machinery creating "extreme" fire hazards. In addition, the inspector concluded that IMC had not been supporting the ships with parts and supplies. We found no evidence that MSC had requested corrective action.

Our review of U.S. Coast Guard inspections also disclosed numerous instances of reported deficiencies—not all of which were corrected in a timely fashion. Further, although between August 1991 and February 1993 all nine tankers received material condition upgrades at MSC's expense, owner inspections between October 1993 and March 1994 disclosed that serious problems remained.

Lack of Maintenance Enforcement Costly for MSC/Efforts Not Fully Effective

As a result of not enforcing the contract's maintenance requirements, MSC had to take two costly steps totaling about $20 million. At MSC's direction, the contractor hired additional crew, called "wipers," to wipe up excess oil in the engine rooms and on other parts of the ships. MSC obligated $2 million in advance—for 1992 through 1995—for the wipers. Also, beginning in August 1991, each ship underwent material condition upgrades. As of April 1, 1994, these upgrades had cost MSC about $18 million over the original $170 million 1990 contract cost. For example,

MSC obligated $1.2 million to steam-clean the engine rooms on all nine ships.

Between October 1993 and March 1994, after MSC had performed a material condition upgrade on each of the ships, an independent marine surveyor surveyed the Sealift Antarctic, Sealift Arabian Sea, Sealift China Sea, and Sealift Pacific for the ships' owners. Those surveys disclosed numerous serious maintenance problems. For example, the surveyor found that all four ships had been so poorly maintained that they had major oil leaks in their engines and machinery. The surveyor recommended that both main engines and both service diesel generators on all four ships receive overhauls. Further, the November 1993 survey of the Sealift China Sea disclosed that the "ship had been kept in a very poorly maintained state[;] the only work accomplished was that which was absolutely necessary for the ship to be able to perform its function of moving cargo."

The possible extent of the oil leakage can be demonstrated by an October 1993 ship survey of the Sealift Antarctic, paid for by the ship's owners. The survey revealed an excessive consumption rate of lubricating oil, based on the ship's engine-room log. According to the surveyor's report, lubricating-oil consumption exceeded 150 gallons per day for each of the ship's two main engines and 25 gallons per day for each of the ship's two service diesel generators—over 350 gallons per day. This exceeds the 75-gallons-per-day rate shown in the IMC/MSC operating and maintenance contract by more than 450 percent. Further, according to ship-submitted MSC records, the Sealift China Sea consumed almost 3 times its maximum allowable rate of lubricating oil for the 1-year period that we reviewed. Since lubricating-oil expenses are reimbursable under the contract, this consumption rate added directly to the government's contract costs. We also noted that oil leaks continued on a number of the other tankers. (See figs. 2-4.)

MSC Oversight

Prior to spring 1992, MSC had no oversight of what deficiencies MSC, Coast Guard, or IMC employees identified or whether corrective actions were taken. MSC officials advised us that prior to that time, MSC performed little or no oversight of the deficiencies found during inspections because the inspection reports identified what one MSC official considered as "insignificant" items. After our investigation began in spring 1992, MSC instituted a pass/fail inspection system that is shorter, less detailed, and less stringent than the previous inspection reports. For example, the new inspection forms consist of a check-off format.

Lack of Enforcement of and Compliance With Crewing Requirements

To ensure the safe, effective, and environmentally sound delivery of oil products to U.S. defense forces, the MSC contract with IMC requires that the ships sail with (1) a complete crew that is (2) qualified, including appropriate security clearances, and (3) of good character. However, MSC did not enforce these requirements; and the contractor did not always comply, with negative effects on efficiency, safety, and the environment.

MSC Did Not Enforce the Use of Full Crews

IMC often allowed the tankers to sail with a shortage of crew, an act that potentially benefitted the contractor financially. However, MSC had no system to identify whether full crews had been employed. In some instances, these shortages caused oil spills, among other problems.

According to MSC officials, they sometimes received information on crew shortages from fuel quality assurance representatives from the Defense Fuel Supply Center or MSC officials visiting or inspecting the ships. However, these individuals are not required to report such information, and MSC has no mechanism to access and follow up on crew-shortage reports.

MSC officials also told us that they rely primarily on the contractor to report crew shortages. However, relying on the contractor to report shortages is questionable because crew shortages could be beneficial to the contractor. They reduce the contractor's payroll costs and thus could increase the contractor's net revenue since the contract is fixed-price.

Our interviews with crew members on three of the nine tankers indicated that the ships often were short on crew members. One Chief Engineer indicated that his vessel had been operating with a crew that was both undermanned and inexperienced. Further, one Captain told us that wages paid to the crews were 10 percent less than market rate. According to some crew members, including a Chief Mate, the low wages resulted in high turnover. Another crewman told us that his vessel could not attract and keep good people because of the low pay and that high turnover contributed to safety problems.

Our visits to three of the ships appeared to support the cited high turnover rate. Over a 2-year period on the 3 ships, 658 individuals had been hired to fill the 75 crew positions—an average of over 8 individuals for every position.

MSC Did Not Ensure Qualifications of Crew

Contrary to the current contract, MSC, through its lack of contract enforcement, did not always approve "key" crew members—including a ship's Master, or Captain—and allowed unqualified, inexperienced crew members to work on the ships. Personnel affiliated with various ports, Navy investigators, and ship officers have cited unqualified and inexperienced key and other crew members as contributing to a number of Sealift oil spills.

Unapproved Key Crew Members

The contract requires that MSC approve certain key crew members—such as the Captain, Chief Mate, Chief Engineer, First Assistant Engineer, and Radio Officer. After the first 90 days of contractor operations, IMC was required to report substitutions of a key crew member to MSC in advance where possible, providing an explanation of the circumstances necessitating the substitution and a complete résumé that included the substitute's training, qualifications, and medical records.

In June 1990, shortly after the contract was initiated, the MSC contracting officer approved IMC's use of 67 key crew members—including only 3 Captains—for the 9 ships. However, at that time, MSC had received résumés for only 43 of them. While the contractor provided MSC with brief descriptions of the remaining 24 key crew members and promised to provide the résumés of these individuals, they were never provided. Further, naval investigators cited at least one key crew member whose résumé MSC had not received and whom MSC had not approved—the Captain of the Sealift Caribbean—as responsible for a fuel spill at sea in March 1992. MSC did not follow up concerning the résumés that IMC had promised until after we initiated our investigation in early 1992.

On June 24, 1992, the MSC contracting officer, noting that IMC had provided little information on key crew members since the contract began over 2 years previously, asked the contractor to provide information on all key crew members employed on the Sealift tankers. In response, IMC submitted 36 résumés, indicating many personnel changes. IMC did not submit résumés for an additional 22 key crew members who were aboard the vessels.

Unqualified, Inexperienced Crew Members

The contract requires IMC to crew each ship with the "trained, qualified, and fit" personnel necessary for worldwide operation. However, our 1992 interviews with crew members on three of the nine ships indicated that these ships lacked qualified crew members. One Captain told us that the crew was generally young and inexperienced. Others also told us that the low wages attracted inexperienced crew members.

Indeed, several seamen told us that the ships were being used as training vessels for inexperienced crew. One said that the vessel he was working on was ". . . attracting a lot of workers who have never been on a tanker before. . . ." Further, two crew members advised us that this was their first ship assignment. Another, a Chief Engineer, indicated that his vessel had been operating with a crew that was sometimes both undermanned and inexperienced and that often the contractor allowed crew members to change positions and work in jobs for which they were not qualified. One seaman on the same ship told us that the inexperienced workers caused safety problems.

Environmental Consequences

Some crew members' lack of qualifications and experience and MSC's lack of enforcement of those qualifications have contributed to serious environmental consequences. Port authorities and naval investigators cited crew shortages, inexperience, and negligence as contributing factors in numerous Sealift tanker oil spills.

For example, on July 1, 1990, a tank aboard the Sealift Arabian Sea overflowed while the ship was loading in Gaeta, Italy. The reason for the overflow, cited in the Chief Officer's log book, was that a crew member had failed to stand his watch. IMC is being held responsible for a $36,000 cost for spill clean-up by Gaeta port personnel.

Further, on February 4, 1991, a Sealift Caribbean oil spill occurred in the Houston, Texas, port. This was the ship's fourth reported spill in water since IMC's operational takeover in April 1990. It had also had seven reported spills on deck during this 10-month period. Crew shortages and poorly qualified seamen were cited as the probable causes for the spills. According to notes from a February 8, 1991, Houston port meeting, the U.S. Coast Guard was to press charges and revoke licenses if the spills continued.

In March 1992, the Sealift Caribbean discharged over 47,000 gallons of gasoline at sea. Naval investigators cited the Captain's "extremely poor judgement and complete ignorance of actions expected and required of him" as the reason for the discharge. We determined that MSC had not approved this Captain to operate the ship and had not received a résumé depicting his experience and qualifications. However, at about the time that the Captain was relieved of his command of this tanker and IMC no longer employed him, IMC sent MSC a copy of his résumé.

In addition, fuel depot personnel and the Captain of the Sealift Antarctic expressed concern to MSC about the competency of some of the ship's crew after that ship experienced two oil spills during a loading operation. The second spill occurred when a crew member opened instead of closed a centerline tank-fill valve.

In 1993, we requested that the Environmental Protection Agency's Criminal Enforcement Counsel Division investigate allegations of possible environmental crimes by IMC concerning a 1992 oil spill. The Miami, Florida, District Office of the U.S. Coast Guard was also investigating a possible criminal case against IMC for this same incident and had taken action to suspend the license of the Captain of one of the offending IMC vessels. However, in January 1994, over the Coast Guard's objection, the Department of Transportation, Office of General Counsel, determined that these ships were "public vessels" and therefore exempt from liability under the Oil Pollution Act of 1990, Pub. L. No. 101-380, 104 stat. 484. Because of this decision, no criminal liability may be lodged against IMC, although, according to the Department of Transportation determination, MSC has a responsibility to monitor the ships and prevent oil spills.

MSC Did Not Enforce Security and Character Requirements

Because the tankers' mission is sensitive (delivering fuel to U.S. military forces worldwide) and secure communications are needed, the contract requires that each Captain, Chief Mate, and Radio Officer undergo a background investigation and receive a secret-level security clearance. Further, U.S. Coast Guard rules and regulations prohibit the contractor from hiring any crew member who has a drug conviction within 3 years prior to the date of filing an application to work on U.S. ships. However, MSC had no procedures to determine whether the contractor was fulfilling these responsibilities.

Our review of the contract files showed no record of any background investigations or security clearances for the above-cited key crew members on all nine ships. MSC officials told us that they assumed, but had not verified, that the contractor had obtained the appropriate clearances. After our review began, MSC twice asked the contractor to provide information on security clearances of key crew members. In April 1993, IMC provided MSC a list of key crew members. However, a large number of the crew members had security clearances pending. For example, of the 16 Radio Officers on the list, only 1 had a finalized security clearance.

To ascertain any felony convictions, including drugs, we performed a criminal records check of the names of crew members who had been employed over a 2-year period on the three ships we visited. About 178 of the 658 individuals employed had been previously convicted of felonies including assault and rape; about one-third of these convictions involved various drug violations. Two individuals were fugitives. Of additional concern, we noted that some of the seamen had used false social security numbers and that some were not U.S. citizens.

MSC Failed to Adequately Identify Ship Inventories at Contract Turnover

MSC did not adequately inventory the government-furnished equipment and supplies left on the ships when they were turned over to IMC as the new contractor in 1990. This is counter to MSC's contractual requirements to ensure the ships' continued effective operation and to preserve the ships' conditions. As a result, IMC took over the operation of the nine tankers "under protest"; and MSC is vulnerable to contractor claims. Indeed, IMC has filed claims to recoup funds spent to purchase needed items and repair certain equipment.

Inventories

The contract with IMC required that MSC inventory government-furnished property on the Sealift tankers prior to the turnover from the previous contractor. The contract further required that such inventories meet a 90-percent validity test.

At the time of contract turnover in 1990, MSC hired a third contractor to inventory each ship. According to MSC officials, the inventory contractor did not do a thorough job. IMC agreed to take over the tankers but only with the understanding that it did not agree with the inventory results. Citing the need for a more thorough inventory, in June 1990, IMC recommended that new inventories be conducted for all nine ships; but MSC never conducted the inventories.

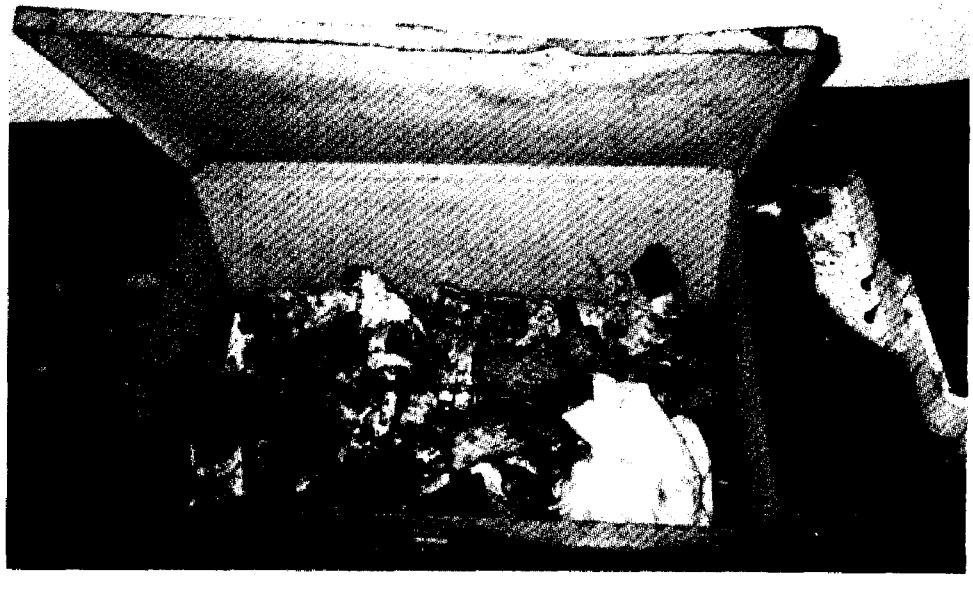
A year later in July 1991, IMC recommended two options to resolve the inventory problem: (1) IMC would conduct a new inventory and (2) IMC would delete items on the current inventory that it claimed were not on board, were consumable or scrap material, or it had purchased. In December 1991, about 1.5 years after the turnover, MSC agreed to the inventory for the Sealift Arabian Sea using the second option. As of March 1994, the parties had not agreed on the inventories of the other eight tankers.

However, as of the end of our review, MSC did not have even the original inventory for eight of the nine ships, although MSC officials have stated that baseline inventories are needed for all the ships to protect the government's interest. MSC asked the ownership group to provide copies of the original inventories that the first contractor had provided. Without agreed-to inventories, MSC has no baseline from which IMC can be held accountable and little or no basis to judge whether contractor claims for purchases are valid.

MSC Vulnerable to Contractor Claims

Until MSC and IMC agree to inventories for the remaining ships, MSC will have no baseline to evaluate possible future IMC claims. For example, in June 1992, IMC submitted a claim to the government for $262,409 for missing but necessary material and equipment for the Sealift Indian Ocean. The reportedly missing items included a refrigerator, pumps, mooring lines, medical equipment, compressors, filters, engine parts, and tank-cleaning equipment. An MSC official stated that creating a listing of items that should be on board a ship is very subjective and open to dispute. The official further stated that without an inventory at the time of delivery, MSC has no way to determine which items were on board at the turnover or the condition of those items that were on board. (See fig. 5.)

Figure 5: Pump-Room Spare Parts on Sealift Arabian Sea, June 27, 1993



Source: Engineering & Marine Consultants Inc., Issaquah, Wash.

In an August 1993 claim, IMC is seeking to recover almost $2 million it contends it spent on the Sealift Indian Ocean to repair and replace deficient equipment. The contractor claims that these improvements were necessary to place the ship in the condition it should have been at contract turnover. In an additional claim, IMC seeks to recover $1.2 million it claims to have spent correcting engine alignment and replacing a crankshaft on the Sealift Pacific.

These claims follow MSC's September 1990 settlement with the previous contractor concerning ship-condition deficiencies and inventory levels at contract turnover. According to the settlement, the previous contractor's liability for ship deficiencies was not to exceed $290,000. This settlement excluded repair of the Sealift Atlantic's damaged propeller. Thus, MSC would be responsible for any other deficiencies of the nine ships totaling more than the $290,000.

According to IMC legal counsel, the company plans to file additional claims to recoup funds spent to improve the ships.

Weak MSC Contract Administration Practices

Although other MSC ship programs have program managers, MSC did not assign one to oversee the performance of the Sealift tanker contract. According to MSC officials, the absence of a program manager to coordinate the efforts of the cognizant MSC directorates and divisions is a major problem in effectively managing this contract. MSC also failed to appoint a Contracting Officer's Technical Representative (COTR) for contractor performance monitoring, as the contract with IMC required, until 1993.

For the previous tanker contract, MSC did (1) establish a group with overall responsibility for the contract and (2) assign areas of responsibility and lines of authority, in writing, among various directorates involved in overseeing the contract. According to MSC officials, MSC has not implemented either of these actions for the current contract because of an ongoing disagreement among various directorates as to who has responsibility for administering the contract. They told us that the contract is "administered by [a] committee," consisting of personnel from MSC's Operations, Engineering, and Contracting directorates. Further, while numerous draft instructions detailing responsibilities have been developed, none have been agreed on by all parties.

In addition, contrary to its own contractual requirements, MSC did not successfully appoint a COTR—a key official responsible for monitoring the contractor's performance and adherence to the contract's requirements—until April 1993. According to an MSC official, if MSC had a COTR, that person would have required training; however, "[W]e are concerned with ship operations not contract administration." Earlier, MSC had designated an individual in the MSC Operations Directorate as the COTR for this contract. However, he refused to assume the COTR responsibilities because he believed that he did not have the proper authorities or training to carry out this function.

Conclusions

In a fixed-price contract, any funds not spent for personnel's salary or maintenance remain with the contractor. This may provide an incentive for a contractor to spend as little as possible on preventive maintenance and on securing and retaining the required number of competent crew members, potentially creating the unsafe conditions we noted on all nine tankers. Because of the fixed-price nature of the last two contracts, it is especially important for MSC to closely monitor the contractor's performance in both preventive maintenance and crewing requirements so as to protect the government's and taxpayers' interests. However, MSC has failed to do so—at the government's and taxpayers' actual and potential expense.

Further, the absence of a single program manager; written instructions detailing these and other associated responsibilities; and a COTR, until April 1993, to monitor contractor performance have resulted in MSC's failure to enforce numerous important contractual requirements. These requirements include both qualified, experienced crew members and inventories. MSC's failure to devote the resources necessary to enforce its contractual responsibilities can have effects far beyond excessive government expense. Indeed, the combination of deteriorated or missing equipment and instances of unqualified crew members has created both potential and actual hazards not only to the tankers' civilian crews but also to U.S. service men and women around the globe and to the environment.

As arranged with your office, unless you publicly release this report earlier, we plan no further distribution until 30 days after the date of this letter. At that time, we will send copies of this report to other interested congressional committees; the Secretary of Defense; the Secretary of the Navy; and the Commander, MSC. We will also provide copies to others

upon request. If you have questions concerning this report, please call me or Assistant Director Barbara Cart of my staff at (202) 512-6722. Major contributors to this report are listed in appendix II.

Sincerely yours,

Richard C. Stiener
Director

Contents

Abbreviations

COTR	Contracting Officer's Technical Representative
GAO	General Accounting Office
IMC	International Marine Carriers, Inc.
MSC	Military Sealift Command
OSI	Office of Special Investigations
SAMM	Shipboard Automated Maintenance Management

Objectives, Scope, and Methodology

Our review addressed MSC's management of its contract with IMC to operate and maintain the nine Sealift tankers. Primary objectives of the review were to assess MSC with respect to the contract and determine if the ships were being operated in the best interests of the government. Specifically, we looked at the maintenance and inspection of the ships, the crewing of the ships, and the control of government-furnished property aboard the ships.

To accomplish our objectives, we interviewed officials at MSC headquarters and crew members aboard three Sealift tankers. We also met with U.S. Coast Guard headquarters officials in the Washington, D.C., area. We reviewed files in MSC's Contracting, Engineering, Logistics, Operations, and Payments directorates; inspection reports and records prepared by MSC personnel, the U.S. Coast Guard, and the American Bureau of Shipping; and MSC files pertaining to ship personnel, contractor security clearances, and off-hire reports resulting from crew shortages. We also investigated the backgrounds of some ship personnel.

An interdisciplinary team of GAO investigators and evaluators performed the review and interviewed tanker crew members between March 1992 and May 1993. Following this, the team reviewed updated MSC contracting inspection reports and 1993-94 owner-contracted ship inspection reports. The team also conducted additional interviews.

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