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*Office of Inspector General*  
*Audit Report*

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**Procurement Activities  
Maintenance and Logistics Command Atlantic**

**U.S. Coast Guard**

**Report Number MA-1998-060  
Date Issued: January 15, 1998**





**U.S. Department of  
Transportation**

Office of the Secretary  
of Transportation

Office of Inspector General

# Memorandum

Subject: INFORMATION: Report on Procurement  
Activities, Maintenance and Logistics Command  
Atlantic, U.S. Coast Guard  
Report Number: MA-1998-060

Date: January 15, 1998

From: **John L. Meche** *John L. Meche*  
*for* **Deputy Assistant Inspector General for  
Maritime and Departmental Programs**

Reply to JA-40  
Attn of:

To: Commander  
Maintenance and Logistics Command Atlantic

## BACKGROUND AND OBJECTIVE

This report presents the audit results on Procurement Activities at the Maintenance and Logistics Command, Atlantic (MLCA), U.S. Coast Guard (Coast Guard). The audit objective was to determine whether MLCA awarded and administered its procurement activities in accordance with Federal, Department of Transportation (DOT), and Coast Guard regulations. We conducted the audit in accordance with Government Auditing Standards prescribed by the Comptroller General of the United States.

The MLCA is responsible for major procurements for five Coast Guard Districts, plus units in the Atlantic area, which include the East Coast, Great Lakes, and Gulf Coast. The MLCA's Civil and Naval Engineering Divisions carry out major procurement activity for architectural, engineering, and construction services, and repairs and alterations to vessels. All other major goods and services are procured by the MLCA's Finance Division. Purchases under \$25,000 are procured by the MLCA's Support Center New York (Support Center).

## RESULTS-IN-BRIEF

We reviewed 64 contracts, purchase orders, and blanket purchase agreements, totaling about \$24.5 million, for Fiscal Year (FY) 1995 and the first quarter of FY 1996. We also selected 30 contract modifications, totaling about \$951,000. The audit focused on contracts over \$100,000 awarded by the Naval Engineering

Division, Civil Engineering Division, and Finance Division. We did not review pollution response contracts because those contracts were audited separately.

We found the MLCA complied with Federal, DOT, and Coast Guard regulations involving contract award procedures. However, we identified deficiencies in the administration of procurements involving use of blanket purchase agreements, authorization and inspection of contract work, closeout and deobligation of contract funds, and designation of individuals authorized to certify fund availability.

### Blanket Purchase Agreements

Federal Acquisition Regulation (FAR) Section 13.204 states the blanket purchase agreement, as a method of simplifying the making of individual small purchases, shall not be used to avoid the small purchase limitation. FAR Part 13 defines small purchases as the acquisition of supplies, nonpersonal services, and construction, which, in aggregate, do not exceed \$25,000. The Coast Guard's Small Purchase Handbook also states blanket purchase agreements should be established with several suppliers for the same class of items, vendors shall not receive preferential treatment, and calls should be equitably rotated among qualified suppliers.

We found the Support Center split purchases for road paving services to allow procurement under small purchase procedures. We found 15 of 16 orders, placed against this blanket purchase agreement during a 7-month period, were issued just below the \$25,000 limit. Twelve orders were made for \$24,999 each, and three orders were made for \$24,990 each. The Support Center also established multiple blanket purchase agreements for cleaning and electrical services, although the aggregate amount initially estimated for these services exceeded the maximum amount allowed for negotiating purchases under small purchase procedures. The aggregate amounts totaled \$106,778 and \$120,000, respectively.

The Support Center also issued three of four blanket purchase agreements for painting services to the same vendor between October 1993 and September 1996. The Support Center continued to use this vendor, despite the vendor's history for charging high prices. By not establishing blanket purchase agreements with several vendors for the same class of services, and not using formal contract procedures for acquisitions exceeding the small purchase limit, the Support Center did not have reasonable assurance prices paid under blanket purchase agreements were fair and reasonable.

## Inspection and Authorization of Work Performed

MLCA Standard Operating Procedure, Section 4.a.2, states a contracting officer may appoint qualified personnel, normally referred to as the Contracting Officer's Technical Representative, as his/her authorized representative for specific actions, such as inspection. The Support Center Standard Operating Procedure also states that all orders for supplies, services, or changes of an existing purchase order placed by an individual other than a warranted contracting officer is an unauthorized commitment.

We found inspections were not adequately documented, discrepancies existed between contractor billings and work performed, and contractors were directed to perform work outside the scope of the contract. Our review of three painting contracts disclosed contractor worklists were not always prepared, information regarding the amount of work performed and results of inspection were omitted, and worklists were not forwarded to the contracting officer, as required. The contracting officer responsible for monitoring the inspector's activities was unaware of these problems.

Discrepancies also existed between the work ordered, the inspector's records for work performed, and the work invoiced by the contractor. In one instance, a procurement request required 200 square feet of patch plastering. The inspector's worklist indicated 250 square feet of plastering was performed, but the contractor billed for 500 square feet of work.

## Contract Closeout and Deobligation of Funds

FAR Section 4.804, provides specific timeframes for closing out completed contracts, and specifies that closeout procedures should ensure a contract funds review is completed, and a completion statement is prepared, to identify excess funds for deobligation.

MLCA's Finance Division, Naval Engineering Division, and Support Center did not closeout contracts timely, or identify contract funds no longer needed and available for deobligation. Finance Division personnel did not maintain a listing of contracts requiring closeout. In response to a request from the Commandant regarding FY 1995 undelivered orders, the Naval Engineering Division identified about \$1.4 million in open contract documents that should have been deobligated. An MLCA Administrative Quality and Assistance Office compliance report, issued May 1996, also cited weaknesses in the Support Center's review of unliquidated obligations.

## Funds Certification

Commandant Instruction 7302.1, provides procedures for certifying funds availability in procurements. Commandant Instruction M4200.19E, further states that commands will designate funds certification in writing and that contracting officers shall ensure funds certifications are made by authorized individuals.

We found the MLCA's Naval Engineering Division and Finance Division were not in compliance with Coast Guard requirements for documenting fund certifications. The Naval Engineering Division did not maintain a listing of designated Accounting Certification Officers. At the Finance Division, only two of nine Accounting Certification Officers were properly designated.

## RECOMMENDATIONS

We recommend the Commander, MLCA:

1. Ensure blanket purchase agreements are used in accordance with FAR requirements and request Coast Guard Headquarters clarify the Small Purchase Handbook's purchase limitations for blanket purchase agreements.
2. Require contracting officers to monitor inspector activities so that adequate documentation of contract inspections are maintained and inspectors comply with procurement procedures for authorizing contractor work.
3. Establish a higher priority for closing out contracts to ensure completed contracts are closed out timely and unneeded funds are promptly deobligated.
4. Ensure written funds certification designations are provided for all individuals authorized to certify funds.

## Management Response

The Commander, MLCA, concurred with the report recommendations and has taken corrective actions to address each recommendation. The Commandant (G-CFM) has undertaken a project to revise its Small Purchase Handbook to clarify small purchase limitations for blanket purchase agreements. MLCA Standard Operating Procedures also have been revised to expand guidance on contract inspection duties to include a contract performance checklist, instructions for maintenance of inspection reports, and guidance on ordering contractor work.

The MLCA also has instituted procedures to accomplish closeout of all completed contracts in a timely manner, and has coordinated efforts with the Coast Guard Finance Center and National Pollution Funds Center to ensure excess funds are promptly deobligated. The MLCA also revised its Standard Operating Procedures to include instructions for preparing and submitting designation forms to approve official expenditures. The complete text of management comments is the appendix to this report.

#### Office of Inspector General Comments

The actions taken by the Coast Guard are reasonable. Accordingly, no further response to this report is required.

We appreciate the courtesies and cooperation of Coast Guard representatives. If you have any questions, please contact me at (202) 366-1496, or Michael E. Goldstein, Regional Manager, Region II, at (212) 264-8701.

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MANAGEMENT RESPONSE

Appendix  
(2 pages)

U.S. Department  
of Transportation  
United States  
Coast Guard



Commander  
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JUN 6 1997

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Subj: COMMENTS ON DRAFT REPORT ON AUDIT OF MAINTENANCE AND  
LOGISTICS COMMAND ATLANTIC PROCUREMENT ACTIVITIES, USCG  
PROJECT NO. 624-002-2000

We generally concur in the recommendations contained in the draft report and are taking the following specific actions to address the underlying conditions.

Recommendation 1. The Commandant (G-CFM) has undertaken a project to revise the Small Purchase Handbook to clarify the small purchase limitations for Blanket Purchase Agreements. The estimated completion date is September 1997.

Recommendation 2. The Maintenance and Logistics Command Atlantic Standard Operating Procedures have been revised to incorporate expanded guidance on contract inspection duties. New procedures added include a contract performance checklist, instructions for the maintenance of inspection reports, and guidance on ordering contractor work.

Recommendation 3. While we concur with the theme of this recommendation, we disagree with the Report's contention that nearly \$2 million in FY95 contracts could have been deobligated and made available for other uses. The Naval Engineering Division reviewed its files and found that the statement that \$1,353,365 of open obligations should have been deobligated was not completely accurate. In order for the \$1,353,365 to be used for other purposes, we would have had to have made the deobligation prior to the end of the Fiscal Year. Any FY95 funds recovered by deobligation after 1 October 1995 could only be used for other valid FY95 expenditures. However, none of the reviewed contracts, with two possible exceptions, could have been closed in FY95. Therefore, little of these funds could have been made available for other uses.

Although there was no apparent lost funding within the Naval Engineering Division as a result of past practices, we agree that open obligations should be reviewed more frequently than on an annual basis. We have instituted procedures to accomplish close-out of all completed contracts in a timely manner. Our efforts are being coordinated with the Coast Guard Finance Center and National Pollution Funds Center to ensure that excess funds are promptly deobligated.

MANAGEMENT RESPONSE

JUN 6 1997

Subj: COMMENTS ON DRAFT REPORT ON AUDIT OF MAINTENANCE AND LOGISTICS COMMAND ATLANTIC PROCUREMENT ACTIVITIES, USCG PROJECT NO. 624-002-2000

Recommendation 4. We have brought funds certification procedures into line with existing directives. In addition, the newly revised Maintenance and Logistics Command Atlantic Standard Operating Procedure Manual contains instructions for the preparation and submission of the "Designation to Approve Official Expenditures" form. We have emphasized attention to this detail by our procurement personnel throughout the organization. It is an active checklist item in our Compliance Inspection program.

Our point of contact in this matter is Captain A.J. Hindle, Compliance Staff Chief, at (757) 628-4175.

  
E. J. Barnett

Copy: Commandant (G-CCS-2, G-CPM)