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UNITED STATES GENERAL ACCOUNTING OFFICE

WASHINGTON, D.C. 20548

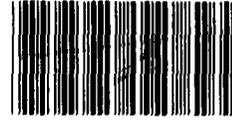
PROCUREMENT AND SYSTEMS ACQUISITION DIVISION

B-199241

RESTRICTED -- Not to be released outside the General Accounting Office except on the basis of specific approval by the Office of Congressional Relations.

NOVEMBER 24, 1980

RELEASED



113930

The Honorable Thomas J. Downey
House of Representatives

Dear Mr. Downey:

Subject: Details Regarding Naval Air Systems Command
Contracts With Patty Precision Products
Company (PSAD-81-1)

I am responding to your request for more detail in matters covered in our prior report to you on the above subject (PSAD-80-57, June 26, 1980). The following are answers to your specific questions.

QUESTION

What was the name of the single individual in the Naval Air Systems Command (NAVAIR) responsible for the release of 73-B-0139 without reference to Aviation Armament Change (AAC) No. 557?

ANSWER

Howard D. Fugitt, Contracting Officer, NAVAIR (retired on Sept. 30, 1977).

COMMENT

AAC No. 557, dated April 30, 1973 (sent under separate cover, tab A), was a set of instructions issued to naval ordnance service facilities to enable them to install a modification kit into MER/TER bomb racks to prevent accidental bomb releases which had been experienced. In December 1979 NAVAIR Armaments Systems Program officials involved with AAC 557 said that in 1967-68 the Navy wanted a fix for its MER/TER bomb racks to prevent accidental releases. NAVAIR solicited proposals from McDonnell Douglas Aerospace Corporation (the sole-source manufacturer of these bomb racks using its own drawings); other bomb rack contractors, including Patty Precision Products Company; and from naval field activities on how to modify the bomb rack. Many contractors, including Patty,

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proposed modifications in 1969 or 1970. The Navy selected the modifications proposed by McDonnell Douglas and gave it a contract to build kits to be installed into existing bomb racks. The Navy continued to buy bomb racks from McDonnell Douglas and then had the modification kits installed into the racks at Navy field activities.

Meanwhile, the Navy decided to obtain competition in future contract awards for these bomb racks. Therefore, the Navy purchased the McDonnell Douglas drawings and in 1969 started conforming them to Navy specifications. These drawings were for the bomb rack without the modification and were completed in May 1970. The Navy used these drawings in solicitation N00019-73-C-0139 on October 31, 1973, which resulted in contract N00019-74-C-0313, awarded on December 20, 1973, to Patty.

The Navy had been buying AAC 557 installation kits during this period from McDonnell Douglas. Although the modification met the Navy's needs, it wanted to incorporate the change into the Navy's plans and specifications for the bomb rack so that subsequent modifications could be avoided. In early 1973 the Naval Avionics Facility, Indianapolis, was asked to prepare the new drawings. The drawings were finished in September 1974, 1 year after solicitation 73-B-0139 was issued and about 1-1/2 years after AAC 557 was issued. After the drawings were prepared, the Naval Avionics Facility tested the drawings by manufacturing some bomb racks from them. The racks passed the tests and NAVAIR accepted the drawings in June 1975.

On September 17, 1974, after producing first articles for testing on contract N00019-74-C-0313, Patty wrote a letter to NAVAIR saying that it had been informed that the Navy desired the McDonnell Douglas designed AAC 557 modification kit installed on its MER/TER bomb racks. Patty understood that new AAC 557 kit drawings had been completed by the Naval Avionics Facility and requested that it be furnished drawings to review for cost impact considerations to modify its present contract to include the AAC 557 modification kit. NAVAIR officials met with Patty and asked for an engineering change proposal. Patty sent an engineering change proposal to NAVAIR who felt the price was reasonable, based, in part, on a technical review of the engineering change proposal performed by the Defense Contract Administration Services (DCAS). In July 1975 contract N00019-74-C-0313 was

amended to include the modification required by AAC 557 in the manufacturing process for the first time. This meant the bomb racks produced under this contract would not have to be partially disassembled and rebuilt with the AAC 557 kits at some naval field activity.

When the Navy had another requirement for MER/TER bomb racks, it issued a request for quotation N00019-76-R-0043 on June 1, 1976, using for the first time, the new drawings and specifications the Naval Avionics Facility had prepared and which had been approved in June 1975.

Patty won this award under price competitive conditions on September 16, 1976, as contract N00019-76-C-0607.

We found no "faulty" documents as alleged in your July 8, 1980, letter. However, we believe that it took the Navy a long time to prepare and approve the new drawings which eliminated the need to tear down newly manufactured MER/TER bomb racks and install a modification kit to attain desired performance characteristics. As we stated in our report on June 26, 1980 (PSAD-80-57), we could find no evidence of collusive bidding for contract N00019-74-C-0313.

QUESTION

Obtain all the files from the Oklahoma courts covering the Writ of Replevin on contract N00019-76-C-0607, together with a copy of the notice of default termination and all supporting documents from NAVAIR officials dealing with termination and litigation.

ANSWER

All Oklahoma court files covering the Government's Writ of Replevin and Patty's suit against the Government are being sent to you under separate cover, tab B. A copy of the notice of default termination is included as enclosure I. All supporting documents from NAVAIR officials dealing with termination and litigation and Patty's response are being sent to you under separate cover, tab C.

QUESTION

Ascertain the name of the DCAS Management Area (DCASMA) official who authorized the preponderance of premature progress payments.

ANSWER

Mr. Burt A. Crowder, former administrative contracting officer (ACO), DCASMA, Oklahoma City, Oklahoma (retired in June 1978).

QUESTION

Why did these payments continue after accounting irregularities were discovered?

ANSWER

We asked DCASMA officials that question on December 4, 1979. At the time of discovery the ACO, Mr. Burt Crowder, believed that the costs as shown on the job cost ledgers were actual costs that had been verified by the Defense Contract Audit Agency (DCAA). Therefore, DCAS had no grounds on which to base a judgment to stop progress payments. Further, we were told that denial of payments to Patty would have impeded the completion of the existing Government contracts Patty was working on.

COMMENT

From a thorough search of the files at NAVAIR, DCASMA, and DCAA, we reconstructed the sequence of events that occurred from the date of discovery of the \$1,445,095 discrepancy between Patty's job cost ledgers and general ledger to the present. (See encl. II.) As stated in our June 26, 1980, report (PSAD-80-57), DCAA on August 22, 1978, found Patty's accounting system inadequate to properly identify, accumulate, and report costs. Again, as indicated in our previous report, we believe DCAS should have suspended progress payments to Patty until the discrepancy was resolved as required by the Defense Acquisition Regulation.

Patty, after being asked for clarification of the discrepancy, made accounting adjustments in October 1978 that reconciled its job costs to its general ledger. On October 12, 1978, NAVAIR requested DCAA to review Patty's reconciliation. On October 19, 1978, NAVAIR informed Patty that the reconciliation data provided was incomplete and requested Patty to provide an explanation and rationale for each adjustment made. On November 3, 1978, DCAA reported Patty's accounting system was now adequate for progress payment purposes.

On November 30, 1978, DCAA released Audit Report 7191-9E.175.129 which estimated a financing cost to the Government of \$298,000, resulting from payment of \$1,490,977 of overstated requests for progress payments during the period September 1, 1975, through August 31, 1978. DCAA suggested that the ACO recover the excess financing costs from Patty. On December 4, 1978, DCASMA asked its headquarters, the DCAS regional office in Dallas, Texas, for guidance. On December 19, 1978, the DCAS Dallas regional office told DCASMA to take no action until a determination was made on whether to conduct an investigation.

On January 10, 1979, the Federal Bureau of Investigation (FBI) field office in Alexandria, Virginia, received a referral of the Patty case from the Naval Investigative Service. The FBI office in Tulsa, Oklahoma, was assigned the case for investigation. In a March 29, 1979, memorandum, the FBI reported that on March 27, 1979, the assistant U.S. attorney reviewing the case advised that she would not consider prosecuting Patty because of the apparent lack of criminal intent and the fact that a civil and administrative remedy was readily available. The FBI report noted that the Small Business Administration (SBA) issued a certificate of competency to Patty in February 1979, implying the contractor was responsible and had integrity.

On April 27, 1979, the DCAA, Oklahoma City branch manager wrote to the Deputy Counsel, DCAA headquarters, disagreeing with statements in the FBI report relating to cost accounting standards and pointed out that the report did not specifically identify how the conclusion was reached that overstatements by Patty were not deliberate. The branch manager believed that the civil and administrative remedy referred to in the FBI report should be actively pursued. On May 3, 1979, a DCAA San Francisco region memorandum to the Director, DCAA, advised that the FBI report contained certain statements that warrant amplification or correction (for example, the apparent lack of intent cited as one of the reasons for not prosecuting). DCAA stated that in its opinion most of the statements in the report had little or no bearing on criminal intent.

On May 11, 1979, the ACO wrote Patty advising that DCAA would begin an audit on June 4, 1979, to determine the specific amount due the Government resulting from the premature progress payments. On May 29, 1979, Patty wrote the ACO stating that it did not deny that the premature disbursements benefited Patty. However, Patty believed no interest

B-199241

was owed the Government, but, if any interest was owed, it should only be \$7,622. On June 1, 1979, the ACO wrote Patty again informing it that DCAA would commence its audit on June 5, 1979.

On July 26, 1979, DCAA issued Audit Report 7191-9E.175.467 evaluating Patty's previously stated position that it only owed \$99,882. DCAA found Patty owed \$175,578. On August 27, 1979, the ACO wrote Patty giving his final decision that Patty owes the Government \$175,578 and informed Patty of its appeal rights. Over 2-1/2 months later on November 19 and 22, 1979, Patty wrote the ACO, stating it was appealing the ACO's final decision under the Contract Disputes Act of 1978. This gave Patty 90 days in which to appeal. On November 27, 1979, the ACO wrote Patty demanding payment of \$175,578 within 15 days and informed Patty again of its rights of appeal.

On May 20, 1980, almost 6 months after Patty notified the ACO of its intent to appeal and almost 3 months after the 90-day period for filing the appeal had run out, the Armed Services Board of Contract Appeals (ASBCA) wrote Patty telling it to either file its overdue appeal or show cause by June 2, 1980, why the appeal should not be denied. On June 23, 1980, Patty wrote ASBCA explaining that it was still preparing the appeal and requested an extension for filing until July 22, 1980. ASBCA granted the extension to Patty. The attorney for the Government, on July 9, 1980, wrote ASBCA moving to dismiss the appeal with prejudice for lack of diligent prosecution of the appeal by Patty. We were told by the recorder, ASBCA, that on July 28 or 29, 1980, Patty filed its appeal. The Government's motion to dismiss is being held in abeyance until the case is heard by ASBCA.

QUESTION

Obtain the names of every DCASMA employee who authorized additional progress payments to this specific contractor after it had already been determined that the contractor's accounting system and controls were insufficient or unreliable for segregating and accumulating contract costs.

ANSWER

Mr. Perry Henson, ACO, DCASMA, Oklahoma City, Oklahoma.

QUESTION

How could \$1.4 million paid in progress payments for work or supplies which had not been attained or which had not been delivered be classified as an "accounting irregularity" since it is clearly a criminal matter to falsify official documents under a Government contract?

ANSWER

An assistant U.S. attorney in Tulsa, Oklahoma, after reviewing the evidence presented by the FBI, declined to prosecute this case. If Patty had been indicted, tried, and convicted, then we could properly call its actions criminal. However, in the absence of an indictment and conviction all we can say is that Patty's actions contained accounting irregularities for which there were administrative remedies.

COMMENT

We have been aware of the problems of nonprosecution of suspected criminal violators. Our report "U.S. Attorneys Do Not Prosecute Many Suspected Violators of Federal Laws," GGD-77-86, February 27, 1978 (sent under separate cover, tab D), addresses this problem and our report, "Department of Justice Should Coordinate Criminal and Civil Remedies to Effectively Pursue Fraud in Federal Programs," GGD-80-7, October 25, 1979 (sent under separate cover, tab E), contains several recommendations, not yet implemented, to the U.S. Attorney General to make the most of its opportunities to recover losses of funds due to fraudulent activity.

QUESTION

Document the deliveries made by the contractor to offset the \$1,490,977 "premature progress payments" and prepare a summary (sequential by date) of all progress payments made by DCASMA to this contractor (by contract) for the 1-1/2 years after the contractor's accounting system was found to be inadequate and the \$1.4 million had been overpaid.

ANSWER

The distinction between progress payments and partial payments needs clarification. When a contractor is paid for the delivery of a quantity of items which are less than the total quantity ordered, that payment is called a partial payment. Progress payments, however, are made on contracts

for the purpose of reimbursing a contractor for costs incurred in pursuit of contract performance. Deliveries do not have to be made before a contractor can receive progress payments. In many manufacturing contracts, a great deal of expense can be incurred that is reimbursed through progress payments before delivery. These expenses can include purchasing material, parts and supplies; expending direct labor hours on manufacturing; and assembling the contract items and a portion of the overhead expense allocable to the contract. Normally, the Government seeks to protect itself by holding back 15 percent from each request for progress payments it receives from a small business contractor so that no more than 85 percent of the total contract price has been paid to the contractor.

In the instant case, Patty requested progress payments for costs that had not been incurred. However, Patty never received more than the total contract price for any contract it received progress payments on. Three of the six contracts that premature progress payments were made on have been completed by Patty and all payments have been liquidated. Of the remaining three contracts, one (C-0607) was terminated for default by NAVAIR. Patty has appealed the termination to ASBCA (see separate cover, tab C) and has filed a court action against the Government in the Northern District of Oklahoma (see separate cover, tab B). Both contracts N-00383-75-C-3745 (with the Naval Supply Office, Philadelphia, Pennsylvania) and contract N-00019-76-C-0587 (with NAVAIR) are still open. A summary schedule of these contracts showing contract price, total amount disbursed, and total amount liquidated by deliveries follows.

<u>Contract</u>	<u>Status</u>	<u>Total contract price</u>	<u>Total amount disbursed</u>	<u>Total amount liquidated by deliveries</u>
N-00019-74-C-0313	Completed	\$1,633,222.89	\$1,633,222.89	\$1,633,222.89
N-00019-74-C-0448	Completed	3,582,613.65	3,582,613.65	3,582,613.65
N-00019-75-C-0096	Completed	1,738,481.49	1,738,481.49	1,738,481.49
N-00383-75-C-3745	Open	1,627,524.94	1,463,421.92	512,092.63
N-00019-76-C-0587	Open	1,997,487.88	1,861,276.00	-
N-00019-76-C-0607	Terminated	1,245,779.74	937,956.28	55,864.80

A summary of deliveries made and progress payments disbursed under these contracts is being sent to you under separate cover, tab F.

QUESTION

Obtain from ASBCA all documents pertaining to the demand for \$175,578 and the counterclaim by the contractor that only \$99,982 is proper "interest" to be charged and indicate the disposition of the case.

ANSWER

All documents have been obtained from ASBCA (sent under separate cover, tab G). We were informed by the recorder of ASBCA that Patty's appeal is still pending a hearing, but, as of October 28, 1980, no date had been set for that hearing.

QUESTION

Supply the names of the NAVAIR "officials" who claim they "lost all the documents" showing grade, rank, and job description, as well as the DCAS "price analyst" and DCAS "technical evaluator" who "lost" or "destroyed" or "purged" their files.

ANSWER

We asked NAVAIR for its contract files on contract N-00019-74-C-0448. We were told by Mr. James Ermerins, GS-1102-14, Procuring Contracting Officer, that after a thorough search had been made, the contract file could not be found.

The DCAS "price analyst" who had purged his files was Mr. Harold Rippeteau, GS-1102-11, Contract Price Analyst. Mr. Rippeteau is no longer employed by DCAS.

The DCAS "technical evaluator" concerned told us that he went back to the office where the files should have been and could not find them; therefore, they had been either lost or destroyed. The evaluator's name, grade, and job description is Mr. Paul Crosslin, GS-801-12, General Engineer.

ADDENDA

In our June 26, 1980, report, we stated that SBA may have been hampered in its evaluation of Patty's competency because it did not have criteria for tenacity, perseverance and integrity cases at the time it was considering a certificate of competency for Patty.

SBA took exception to our statement and in a letter to us identified material it felt supported its exception. After reconsidering evidence previously gathered and reviewing the material identified by SBA, our conclusion was not altered.

We met with SBA officials on August 15, 1980, to discuss this matter. During this meeting, SBA officials gave us copies of a slide presentation from a conference held in 1978. This conference was not previously brought to our attention by any SBA official. This new material showed that while SBA did not have any published criteria for tenacity, perseverance and integrity cases at the time of the Patty case, a conference was held on February 15 and 16, 1978, attended by SBA regional certificate of competency program officials, where criteria cited by us for determining responsibility in cases of tenacity, perseverance and integrity were discussed. We believe that if this criteria was to be used by SBA officials making determinations of responsibility for tenacity, perseverance and integrity, it should have been published and disseminated to these officials. As we stated in our prior report on this subject (PSAD-80-57, June 26, 1980), although Public Law 95-89, on August 4, 1977, broadened SBA's authority to issue certificates of competency to include referrals for tenacity, perseverance and integrity, firm criteria for dealing with such referrals were not issued until March 3, 1980.

As requested by your office, unless you publicly announce its contents earlier, no further distribution of this report will be made until 14 days from the date of this report. We will then distribute the report to the Secretaries of Defense and the Navy; Commander, NAVAIR; DCAS and DCAA officials; the Administrator, SBA; the President, Patty Precision Products Company; and other interested parties. We will be available to respond to any comments or questions that you may have.

Sincerely yours,


W. H. Sheley, Jr.
Acting Director

Enclosures - 2

ENCLOSURE I

ENCLOSURE I

21531G:MCT

SR 79-192

Contract No. N00019-76-C-0607

17 OCT 1979

SPECIAL DELIVERY
REGISTERED MAIL
RETURN RECEIPT REQUESTED
SHOWING DATE DELIVERED

3045394

Patty Precision Products Company
P. O. Box 570
Sapulpa, Oklahoma 74066

Gentlemen:

You are hereby notified that, effective immediately, contract N00019-76-C-0607 dated 15 September 1976 is terminated in its entirety for default pursuant to the General Provision thereof entitled "Default", and that your right to proceed further with performance of the contract is hereby terminated. This action is being taken because of your failure to make progress so as to endanger the performance of the contract in accordance with its terms and conditions.

Specifically, P00007 dated 2 May 1979 established the delivery schedule. Under that schedule, you were required to make deliveries of items by 31 October 1979. You were also required to make available the first lot plus two (2) extra units for selection of production samples for acceptance testing by 15 September 1979. The lot and extra units were not made available as required by the contract schedule. A cure notice was sent to you on 21 September 1979. The cure period has expired and such failure has not been cured. I find that your failure to make progress was not due to causes beyond your control and without your fault or negligence.

You are further notified that the supplies and services terminated hereby may be procured against your account and that you will be held liable for any excess costs.

You will be notified by subsequent correspondence of your liability to the Government with respect to progress payments made under the above contract and any excess costs that may be incurred.

The Government reserves all rights and remedies provided by law or under the contract in addition to charging excess costs.

This is the final decision of the Contracting Officer. Decisions on disputed questions of fact and on other questions that are subject to the procedures of the Disputes Clause may be appealed in accordance with the provisions of the Disputes Clause. If you decide to make such an appeal

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SER 79-192

Contract No. N00019-76-C-0607

from this decision, written notice thereof (in triplicate) must be mailed or otherwise furnished to the Contracting Officer within thirty days from the date you receive this decision. Such notice should indicate that an appeal is intended and should reference this decision and identify the contract number. You are also advised that under the Contract Disputes Act of 1978 (Public Law 95-563/41 U. S. C. 601) you may elect to have your appeal processed pursuant to the provisions of that Act. The Armed Services Board of Contract Appeals is the authorized representative of the Secretary for hearing and determining such disputes. The rules of the Armed Services Board of Contract Appeals are set forth in the Armed Services Procurement Regulation, Appendix A, Part 2.

Sincerely yours,

J. W. ERMERINS
CONTRACTING OFFICER
NAVAL AIR SYSTEMS COMMAND

Copy to:

DCAS/A Oklahoma City (4)
Small Business Administration
Dallas Region
Office of the Comptroller, Dept.
of the Navy, Director of Banking
and Contract Financing

Blind copy to:

AIR-21531G
AIR-2153RF
AIR-215RF
AIR-541
AIR-54151A
AIR-OOC
AIR-OOE
ESA-2042

Prep. W. Timperley 10/15/79
Ext. 27550
Typed: C. Newton

SCHEDULE OF EVENTS REGARDING ISSUE
OF PREMATURE PROGRESS PAYMENTS

<u>Date</u>	<u>Action</u>
January 17, 1978	Naval Air Systems Command (NAVAIR) letter to Defense Contract Audit Agency (DCAA), Oklahoma City, requesting audit of progress payments made to the Patty Precision Products Company because of concern over delinquent status of contracts.
March 9, 1978	DCAA Audit Report 1241-16-8-0201 found job cost ledgers exceeded general ledger by \$1,445,095. Job cost ledgers are the basis for contractors submitting requests for progress payments. DCAA recommended that the contractor be required to provide the explanations and data to reconcile the job cost ledger and general ledger to be used in processing future progress payments.
March 21, 1978	Administrative contracting officer (ACO) (Crowder) letter to NAVAIR contracting officer informing him of \$1,445,095 difference between job cost ledgers and general ledger and that information was not available to reconcile. Stated that ACO believes the job cost ledgers are the correct and proper basis for progress payments, and they will continue to be so used. However, contractor was asked to provide data DCAA requested. Contractor verbally agreed on March 20, 1978, to identify data if given a reasonable time.
March 22, 1978	ACO (Crowder) letter to Patty requesting reconciliation of general ledger to job cost ledgers by May 5, 1978.
May 10, 1978	Patty letter to ACO saying it will furnish the information requested on March 22, 1978, within 30 days of Patty's fiscal yearend. (Note: Patty's fiscal yearend is August 31.)

<u>Date</u>	<u>Action</u>
June 1978	ACO Burt A. Crowder retired. Perry Henson appointed ACO for Patty contracts.
August 7, 1978	DCAA Audit Report 1241-18-8-0428 gave qualified acceptance of Patty's accounting system because of unexplained discrepancies between job cost ledgers and general ledger.
August 22, 1978	DCAA Audit Report 1241-18-8-0428-S1 calls Patty's accounting system not adequate to properly identify, accumulate, and report costs under Government cost-type contracts or firm-fixed price contracts with a progress payment clause.
September 29, 1978	NAVAIR letter to Patty telling Patty that DCAA auditor will be at its plant on October 4, 1978, to get data on \$1.4 million discrepancy.
October 2, 1978	Patty letter to NAVAIR agreeing to provide information on October 9, 1978.
October 10, 1978	Patty letter to Defense Contract Administration Services Management Area (DCASMA), Oklahoma City, furnishing job cost reconciliations. Copy to NAVAIR. (Job costs reconciled and adjusted as of Aug. 31, 1978, by Patty.)
October 12, 1978	NAVAIR letter to DCAA requesting review of Patty's reconciliation.
October 13, 1978	DCAA given access to Patty's records.
October 19, 1978	NAVAIR letter to Patty finding reconciliation data provided by Patty to be incomplete. NAVAIR requests Patty to provide explanations and rationale for each adjustment shown, including identifying documents used to support explanation. Patty was requested to furnish this by October 24, 1978.

<u>Date</u>	<u>Action</u>
November 3, 1978	DCAA Audit Report 1241-18-8-0428-S2 stated that Patty's accounting system now adequate for progress payments.
November 5 or 6, 1978	NAVAIR Inspector General requested Naval Investigative Service to investigate.
November 30, 1978	DCAA Audit Report 7191-9E.175.129 noted estimated financing cost to Government of \$298,000, resulting from \$1,490,977 of overstated requests for progress payments during the period September 1, 1975, through August 31, 1978. These progress payments were received for costs which were not incurred. DCAA, in a memo, suggested ACO consider feasibility of recovering these costs from the contractor.
December 4, 1978	DCASMA letter to Defense Contract Administration Services (DCAS) regional office asking for opinion whether matter should be referred to investigators for possible fraud and if DCASMA should pursue issue of \$298,267 interest-free financing.
December 19, 1978	DCAS regional office memo states its legal office will refer matter to investigative agency and that no action should be taken by ACO to recover excess financing costs until completion of investigation.
January 10, 1979	Naval Investigative Service referred Patty case to the Federal Bureau of Investigation (FBI).
March 27, 1979	Assistant U.S. attorney advised FBI that she would not consider prosecution against Patty because of the apparent lack of criminal intent and the fact that civil and administrative remedy is readily available.

<u>Date</u>	<u>Action</u>
April 27, 1979	DCAA branch manager memo to Deputy Counsel, DCAA headquarters, disagreed with FBI report statement that cost accounting standards caused Patty problems. He pointed out that the FBI report does not specifically identify how the conclusion was reached that overstatements by Patty were not deliberate and voiced the opinion that the civil and administrative remedy referred to in the FBI report be actively pursued.
May 3, 1979	DCAA San Francisco region memo to Director, DCAA, advising that the FBI report contains certain statements that warrant amplification or correction. The memo stated that the FBI report implies that DCAA auditors said something which caused the FBI investigator to believe that Patty's contract accounting which led to overstatements was not deliberate. DCAA auditors maintain they did not state to the FBI that Patty's actions leading to the overpayments were not deliberate. The memo stated that one might easily draw an improper inference from the FBI report wordage. Further, the FBI report also states that one of the reasons for not prosecuting is the apparent lack of criminal intent. However, most of the statements in the report involve matters having little or no bearing on criminal intent. The memo disagreed with the FBI comment that cost accounting standards created problems for Patty and gave the opinion that granting of a certificate of competency by the Small Business Administration should not have a bearing on final disposition of case.

<u>Date</u>	<u>Action</u>
May 11, 1979	ACO letter to Patty advising that DCAA will commence an audit on June 4, 1979, to determine the specific amount due the Government resulting from the interest-free financing caused by the accounting irregularities and resulting overpayment.
May 29, 1979	Patty letter to ACO stating it does not deny that the premature disbursements benefited the contractor. However, Patty believed no interest was owed the Government, but, if any interest is owed, it should only be \$7,622.
June 1, 1979	ACO letter to Patty stating that DCAA will begin an audit on June 5, 1979.
June 4, 1979	DCASMA letter to DCAA stating that Patty requests audit annually rather than monthly and that a determination be made as to the interest owed the Government at each yearend without considering liquidating any of the overbilled amounts.
July 26, 1979	DCAA Audit Report 7191-9E.175.467 evaluated Patty's previous claim that it only owed \$99,882. DCAA found Patty owes \$175,578.
August 27, 1979	ACO letter to Patty giving his final decision that Patty owes \$175,578 and gives appeal rights.
November 19, 1979	Patty letter to ACO appealing final decision.
November 22, 1979	Patty letter to ACO informing him that Patty intends to appeal under the Contract Disputes Act of 1978. (Note: This gives Patty 90 days to appeal.)
November 27, 1979	ACO letter to Patty demanding payments of \$175,578 within 15 days from date of letter and giving rights of appeal.

<u>Date</u>	<u>Action</u>
May 20, 1980	Armed Services Board of Contract Appeals (ASBCA) letter to Patty telling it to either file its appeal or show cause by June 2, 1980, why appeal should not be denied.
June 23, 1980	Patty letter to ASBCA explaining it was still preparing its appeal and requested an extension for filing until July 22, 1980.
July 9, 1980	DCAS regional office attorney wrote ASBCA moving for dismissal with prejudice for lack of diligent prosecution of the appeal.
July 28 or 29, 1980	Patty files appeal. Government's motion to dismiss is being held in abeyance until case is heard by ASBCA (Docket No. 24471).

