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COMPTROLLER GENERAL OF THE UNITED STATES
WASHINGTON, D.C. 20548

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Dear Mr. Chairman:

This is in further reference to your request of June 17, 1971, that we investigate certain charges against the Chicago District of the Army Corps of Engineers made in a letter to you dated March 31, 1971. These charges, pertaining to construction of TNT lines and related facilities at the Newport, Indiana, and Joliet, Illinois, Army ammunition plants, are summarized as follows: (1) Corps officials had given preferential treatment and inside information to Hi-Way Electric Company, a firm which received much of the subcontract work, (2) there was collusion between Corps officials and bidders and among bidders in the award of contracts, and (3) the Corps had mismanaged the Newport and Joliet projects.

We found that the charges of an improper relationship between Corps officials and Hi-Way and collusion in the awarding of contracts were based on hearsay and rumor but we could not find any supporting documentary evidence. We found also that the contracts had some cost growth and some delays in completion. Each of these matters is discussed below in more detail.

In September 1968 the Corps, because of the urgency of TNT requirements, awarded a cost-plus-a-fixed-fee contract to a joint venture of Fegles Construction Company, Inc., and C&I/Girdler, Inc., for the construction of the Newport TNT project. Subsequently TNT requirements eased and the Corps decided to convert the project to a fixed-price-contract basis. The Corps terminated the Fegles-Girdler contract in December 1969 and later awarded a series of 15 formally advertised contracts to complete the Newport project; the last contract was awarded in March 1971. The contracts for the Joliet TNT project also were formally advertised.

The author of the March 31, 1971, letter to you informed us that he had worked for Fegles on previous projects at the Joliet plant in 1965 and on the Newport TNT project later and that he had been in charge of all administrative matters including purchasing and accounting. He could not provide

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specific instances, within his personal knowledge, of the Corps' having influenced Fegles' selection of Hi-Way as a subcontractor or of Hi-Way's having had inside Corps information. He told us that the statements in his letter had been based largely on general comments made by the Fegles project manager and by a Fegles vice president.

We interviewed the project manager and the vice president. Neither one, however, supported the statements made in the letter. They stated that the Corps had not pressured Fegles into selecting Hi-Way. In our review of records at the Corps and at Fegles, we did not find anything irregular in the selection of Hi-Way as a subcontractor.

The Fegles project manager stated also that he could not recall specific instances of Hi-Way's having had access to inside Corps information. He informed us that the work performed for Fegles by Hi-Way at Newport and Joliet was of high quality and had been accomplished with reasonable efficiency.

The March 31 letter also stated that the Defense Contract Audit Agency had accused Hi-Way of irregularities in the handling of reimbursed funds relating to vendors. Defense Contract Audit Agency representatives informed us that in June 1969 complaints were made by several of Hi-Way's vendors that they were not being paid on a timely basis. We understand that this problem was resolved when Fegles-Girdler assumed the purchasing functions of Hi-Way.

Officials of two major prime contractors currently working on the TNT projects informed us that they had selected Hi-Way because its price had been the best offered. Both contractors disclaimed any Corps influence concerning their selection of Hi-Way and indicated that they were satisfied with the quality of Hi-Way's work.

We found that all the current fixed-price contracts at Newport and Joliet had been awarded to the lowest responsive bidders, pursuant to wide advertising. We found no evidence that bidders had colluded to simulate competition. Likewise, we did not find that unsuccessful bidders had become major subcontractors of the winning bidder, as claimed in the letter.

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The March 31 letter also questioned the method of awarding a warehousing contract to Transit Warehouse Corporation as well as the need for the contract. The records showed that the warehousing contract had been formally advertised and awarded competitively and that Transit had been the lowest responsive bidder. We believe that the warehousing contract was necessary to ensure proper handling and accountability of Government-furnished material arriving at Newport prior to start-up by the various construction contractors.

In regard to the question of the adequacy of the Army's management of the Newport and Joliet TNT projects, we noted that costs had increased and that the completion dates had been deferred. Specifically Newport's fixed-price-contract costs had increased from \$35.3 million to an estimated \$40.8 million to date, excluding claims of \$4.3 million for Government-caused delays. The original target completion date of August 1970 for the Newport TNT lines has been deferred repeatedly and is now estimated to be May 1972.

The Joliet TNT project was started in July 1970 and was scheduled for completion in January 1972. At the time of our preliminary inquiry, the changes formalized on the Joliet project were not significant but there were indications that substantial claims would be made and that completion might be deferred as much as a year.

The above summarizes the information we promised to your office in discussion on August 31, 1971. As agreed in the discussion, we are reviewing the reasons for cost growth and completion delays of the Newport and Joliet projects in more detail and will report to you on these matters at a later date.

Sincerely yours,



Comptroller General
of the United States

The Honorable William Proxmire
Chairman, Joint Economic Committee
Congress of the United States

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