

~~14529~~
112986

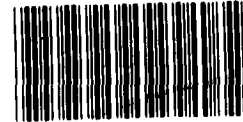
GAO

United States General Accounting Office
Washington, DC 20548

Logistics and
Communications
Division

B-198712

AUGUST 11, 1980



112986

The Honorable Clifford L. Alexander, Jr.
The Secretary of the Army

Dear Mr. Secretary:

Subject: [The Army Should Increase Its Efforts To
Provide Government-Furnished Material To
Contractors] (LCD-80-94)

Four of the five Army inventory control points are not doing enough to use material in their long supply inventories as Government-furnished material (GFM) on major end-item production contracts. To ensure that long supply material is screened for potential use as GFM, the four commands should adopt procedures similar to those used by the Army's Troop Support and Aviation Materiel Readiness Command (TSARCOM). During fiscal years 1976 through 1979, TSARCOM used \$4 million of long supply material as GFM in procuring Cobra helicopters. Maximum use of all Army long supply material would reduce payments to contractors and avoid material from becoming surplus and being disposed of with little or no recovery of its original cost.

We performed our review at the five Army commands which function as inventory control points. We interviewed officials involved with material management, procurement, and production. We analyzed long supply inventory data for secondary items--funded by both the Army's stock fund and procurement appropriation--and information relating to fiscal year 1980 and later planned major end-item procurements. We discussed our findings with headquarters officials of the U.S. Army and its Materiel Development and Readiness Command (DARCOM).



C11594

(943065)

LONG SUPPLY MATERIAL IS REQUIRED
TO BE USED AS GFM

Material in the Army's wholesale supply system is procured and managed by five control points, under the command of DARCOM. Often, onhand quantities of secondary items, including parts, components, and assemblies, exceed the estimated amount of material needed to support U.S. and allied forces during peacetime and from the beginning of a war until industry can produce the material at a rate equal to expected wartime usage. This material is classified as being in long supply and, to the extent it does not exceed authorized retention levels, is retained for possible future use.

Department of Defense Instruction 4140.41, dated July 26, 1974, requires this material to be screened and furnished, when practicable, as GFM to contractors for use on major systems and equipment production contracts, thereby reducing the amounts paid to contractors. DARCOM Regulation 700-42, dated January 24, 1975, requires that Army long supply material be furnished as GFM to production contractors whenever substantial net savings are attainable with acceptable risks. This requirement applies to all production contracts which might exceed \$200,000. At the discretion of the contracting officer, however, GFM can be provided for contracts of less than that amount. The prescribed minimum value of long supply material that can be offered as GFM is \$10,000 per contract. The DARCOM regulation requires each of the five Army control points to implement procedures for providing GFM to production contractors.

LACK OF EFFECTIVE GFM PROGRAMS AT
FOUR ARMY INVENTORY CONTROL POINTS

All five Army inventory control points had substantial amounts of long supply material on hand which had potential use as GFM. Only one, TSARCOM, had instituted a required screening procedure to ensure that material is provided to contractors when practicable. The organizations which did not have effective GFM programs were the

- Tank-Automotive Materiel Readiness Command (TARCOM),
- Missile Command (MICOM),
- Communications and Electronics Materiel Readiness Command (CERCOM), and
- Armament Materiel Readiness Command (ARRCOM).

As of December 31, 1979, these four commands had \$582 million of stock fund and procurement appropriation long supply material, as shown below.

<u>Type of material</u>	<u>ARRCOM</u>	<u>CERCOM</u>	<u>MICOM</u>	<u>TARCOM</u>	<u>Total</u>
	------(millions)-----				
Stock fund	\$164	\$117	\$ 56	\$109	\$446
Procurement appropriation	<u>14</u>	<u>52</u>	<u>59</u>	<u>11</u>	<u>136</u>
Total	<u>\$178</u>	<u>\$169</u>	<u>\$115</u>	<u>\$120</u>	<u>\$582</u>

Officials of these commands acknowledged that they had not implemented a screening procedure for long supply material as required. They generally felt that the current potential for using long supply material as GFM was limited and that the results of such procedures, if implemented, would not justify their efforts. The primary reason they had not instituted the required procedures appeared to be that they did not have a computer software program to identify items in long supply which might be used in end items. They felt that the manual performance of this identification process would be too time consuming to be practical.

Various officials of the four commands advanced additional reasons for not attempting to institute a screening procedure for their long supply material. These included:

- Technical or integration problems which might cause the contractor difficulty. For example, ARRCOM officials told us that onhand small arms parts did not always conform to Army drawings, and therefore, would not function properly when used in weapons.
- Inaccurate recorded data on the quantity and quality of available long supply material.
- Inability to determine from inventory records whether long supply material was new or had been reworked and the commingling of this material in storage. Production contracts for end items to be furnished other countries under the foreign military sales program require that only new material be used.

- Unanticipated increases in demand for material by regular customers can cause items to be no longer in long supply status. If material has been provided to contractors, the inventory control point may not be able to satisfy customer requisitions.
- Increased costs of contracting, material inspection, production control, property administration, transportation, and storage can result from provision of GFM to contractors.
- Possible contractor claims against the Government for failure to deliver acceptable GFM on time.
- Possible jeopardizing of Government claims against contractors for defective end items. Contractors may claim the defects were caused by GFM.

Factors such as these are recognized in the DARCOM regulation as matters that should be routinely considered in evaluating long supply material for use on all production contracts. Therefore, they are not acceptable reasons for not implementing the required procedures. In our opinion, these officials have no sound basis for knowing whether these factors will cause serious problems until they have at least tried to implement a system as required. Similarly, their failure to even try to use long supply material on production contracts casts serious doubt on the validity of their contention that there is little potential for such use. And they obviously do not know the extent to which their long supply inventories might be used as GFM in future years.

TSARCOM'S LONG SUPPLY GFM PROGRAM

Several years ago, TSARCOM devised and implemented a system to routinely screen its long supply inventories for use as GFM on a contract-by-contract basis.

TSARCOM officials successfully solved the primary problem which has prevented the other commands from attempting to implement long supply screening procedures--lack of a computer software program to identify long supply items having potential use as GFM. This was done by devising a computer program, for use with each impending end-item procurement, which produces a

list of long supply items which are part of the end items to be procured. These computer-produced listings provide the starting point for detailed screening and analysis to determine the items and quantities to be provided as GFM.

In addition, TSARCOM has issued instructions to its personnel involved in this screening process which consider the factors raised by officials of the other commands as hindrances to their providing long supply material as GFM. In procuring the Cobra helicopters, TSARCOM had contractor representatives inspect and approve the material before it left the Army depots where it was stored. This was done to avoid the problem of the contractor not being satisfied with the quality or condition of the GFM.

TSARCOM officials informed us that their computer program had been devised by DARCOM's Automated Logistics Management System Activity. In their opinion, the other activities could use this program to perform their necessary preliminary screening of long supply inventories.

POTENTIAL FOR USING LONG
SUPPLY MATERIAL AS GFM

We did not attempt to determine, in detail, how much of the Army's long supply material could actually be used as GFM. This should be done on a case-by-case basis by inventory control point personnel who are familiar with the material. Nor did we attempt to determine the value of material that could have been provided as GFM in recent years which, instead, was disposed of.

TSARCOM officials had not maintained comprehensive data on the overall results of their long supply screening procedures. However, they were able to show that during fiscal years 1976 through 1979, they had provided \$4 million of long supply inventories to the Bell Helicopter Division of Textron Incorporated to produce 253 new Cobra helicopters, thereby reducing the amount paid to the contractor.

At TARCOM we reviewed 319, or 17 percent, of the 1,898 Army stock fund items with long supply inventories of \$10,000 or more. As shown on the next page, 49 items could have been offered as GFM to offset \$1.3 million of the cost of vehicles planned for procurement.

<u>Long supply value</u>	<u>Total no. of items</u>	<u>No. items reviewed</u>	<u>No. of GFM candidates</u>	<u>Total value</u>
				(millions)
\$100,000 or more	134	134	25	\$0.9
\$50,000 to \$100,000	206	78	8	0.3
\$10,000 to \$50,000	<u>1,558</u>	<u>107</u>	<u>16</u>	<u>0.1</u>
Total	<u>1,898</u>	<u>319</u>	<u>49</u>	<u>\$1.3</u>

In addition, financial inventory accounting records, which show dollar value of long supply inventories applicable to individual end items, indicated that \$29.3 million and \$29.1 million of long supply inventories at ARRCOM and MICOM, respectively, applied to end items which were being, or might soon be, procured.

AGENCY COMMENTS AND OUR EVALUATION

On May 28, 1980, we provided the Army with copies of a draft of this report. On June 11, 1980, we met with Army headquarters and DARCOM officials to obtain their views on our findings and recommendations.

The Army headquarters and DARCOM conferees agreed that use of long supply material as GFM on major end-item procurements is desirable. They pointed out that the use of long supply assets has been a major concern. Several Army Audit Agency and our reports have indicated that material is being procured or overhauled when adequate quantities of some long supply items are available.

DARCOM has recently directed the Automated Logistics Management System Activity to study the feasibility of developing a standard computer program to identify the end-item application of long supply secondary items as one step toward the development of standard procedures to screen and

use long supply assets as GFM on production contracts. The study, which is due for completion in July 1980, is expected to show that a standard computer program is feasible. DARCOM officials did not know when a standard screening procedure might be implemented.

Development of the standard computer program is a step in the right direction, but only a first step. The real objective to be achieved is the implementation of a complete set of procedures by each DARCOM inventory control point to make maximum economic use of long supply material as GFM on production contracts. In view of the delays that have already occurred, we believe that DARCOM officials must recognize a sense of urgency in developing and implementing the needed screening procedures.

CONCLUSIONS AND RECOMMENDATIONS

By not screening long supply inventories for possible use as GFM on production contracts, four Army inventory control points may be losing the opportunity to achieve significant savings or may lose such opportunities in the future. Such screening, which is required by Defense and DARCOM policy, has been performed by one Army control point with beneficial results. However, DARCOM officials have not adequately exercised their oversight responsibility to ensure compliance with this policy.

Therefore, we recommend that you direct the Commanding General, DARCOM, to take prompt action to develop procedures to ensure that all Army inventory control points make maximum economical use of long supply inventories as GFM on production contracts. These procedures should provide for the screening of all long supply inventories which have a potential use as GFM, including those managed by a control point other than that which awards the production contracts.

Because of past delays in implementing needed procedures, we also recommend that you establish reasonable time frames for DARCOM to develop and implement these procedures and that you monitor DARCOM's progress to avoid further delay.

B-198712

As you know, section 236 of the Legislative Reorganization Act of 1970 requires the head of a Federal agency to submit a written statement on actions taken on our recommendations to the House Committee on Government Operations and the Senate Committee on Governmental Affairs not later than 60 days after the date of the report and to the House and Senate Committees on Appropriations with the agency's first request for appropriations made more than 60 days after the date of the report.

We are sending copies of this report to the Director, Office of Management and Budget; the Secretary of Defense; and the Chairmen of the appropriate congressional committees.

Sincerely yours,

A handwritten signature in black ink, appearing to read "R. W. Gutmann". The signature is written in a cursive style with a large initial "R" and "W".

R. W. Gutmann
Director