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 WASHINGTON, D.C. 20548

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Dear Senator Pearson:

As you requested in your letter of December 23, 1971, we initiated a review of the Army's decision to terminate production at the Kansas Army Ammunition Plant, Parsons, Kansas. In accordance with arrangements made with your office, this letter discusses several specific matters concerning the closure of the Kansas plant.

BASIS FOR THE ARMY'S DECISION

The Commanding General of the Army Munitions Command made the decision to place the Kansas plant in an inactive status. The decision was made on the basis of production needs and cost effectiveness, as set out in the Army Munitions Command's study of the fiscal year 1972 ammunition work load at Government-owned, contractor-operated plants. The Assistant Secretary of the Army (Installations and Logistics) and officials of the Army Materiel Command were advised of and consented to the decision prior to the Army's announcement on December 3, 1971.

In its study the Army considered several alternatives for allocating the fiscal year 1972 production program for 40 mm, 81 mm, and 105 mm ammunition and other ammunition items among the Kansas, Joliet, Lone Star, and Milan plants. The production and transportation costs and the costs to maintain inactive facilities were compiled for each of the alternative plans.

The alternative showing the lowest cost to the Government provided for phasing out Kansas production, producing all 40 mm and 81 mm ammunition at Milan, and sharing production of 105 mm ammunition between Joliet and Lone Star. This alternative showed monthly savings of \$169,000 (\$2 million a year) over another alternative which provided for scheduling production at all four plants as was done in the 1971 production program.

Our examination showed that elements of the Army's study were questionable and that, if they were in fact invalid, they would have had the effect of nullifying the annual savings of \$2 million attributed by the Army to closing the Kansas plant. The questionable elements and related costs are listed below.

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Transfer of 40 mm ammunition production from the Joliet plant to the Milan plant	\$ 967,000
Joliet's estimated production cost of 105 mm ammunition	1,200,000
Estimated first-destination transportation of 105 mm ammunition	<u>670,000</u>
	<u>\$2,837,000</u>

TRANSFER OF 40 MM AMMUNITION PRODUCTION
FROM THE JOLIET PLANT TO THE MILAN PLANT

The alternative selected showed estimated savings of \$80,600 a month, or \$967,000 a year, by producing 40 mm ammunition at the Milan plant rather than by sharing production between Joliet and Milan. The Kansas plant has not loaded 40 mm rounds in the immediate past nor has it been planned to load these rounds in the future. Therefore there was no reason to associate the cost savings involving the transfer of 40 mm ammunition loading from Joliet to Milan with the closing of the Kansas plant.

JOLIET PLANT'S ESTIMATED PRODUCTION COSTS
OF 105 MM AMMUNITION

Joliet's estimated costs for production of the 105 mm ammunition included in the study may have been understated.

The Joliet plant's cost experience for 1971 and its contract-pricing proposal submitted in October 1971, during the period of the study, for producing 105 mm ammunition in 1972 reflected unit costs about 16 cents a round higher than the unit costs in the study. If the higher unit costs had been applied to the planned 1972 production, the Joliet costs would have increased by about \$1.2 million.

ESTIMATED FIRST-DESTINATION
TRANSPORTATION COSTS OF 105 MM AMMUNITION

The first-destination transportation costs, included in the study, for plants producing 105 mm ammunition were based on the assumption that all production would be shipped to the coastal port at Sunnypoint, North Carolina. Substantially all shipments of the Kansas plant's production, however, have

been to Southeast Asia through the port at Concord, California. In addition, the Army's present plans call for most of the 105 mm production to be shipped to Southeast Asia. The cost to ship 105 mm ammunition from the Kansas plant to Concord is less than the cost to ship it to Sunnypoint. Therefore if Concord, rather than Sunnypoint, had been used as the coastal port for Kansas shipments, the Kansas costs would have been reduced by about \$670,000 and the estimated savings, in turn, would have been reduced by the same amount.

INTERNAL AUDIT

We noted that the factors in the study had not been audited to evaluate their reasonableness. In our opinion, an audit would have disclosed the matters discussed above and would have allowed management the opportunity to consider them before arriving at a decision.

CONCLUSIONS AND ACTIONS TAKEN

The Army's decision was based on the results of a study showing that a \$2 million annual savings would be achieved by closing the Kansas plant. Our analysis, however, of the 40 mm ammunition production costs, the Joliet plant's production costs, and the first-destination transportation costs for 105 mm ammunition has shown that the annual savings may not have been achieved as forecasted in this study.

As you know, the Secretary of Defense has decided to delay the closure of the Kansas plant, pending a restudy of ammunition production, as the result of your letter which included information on matters outlined above and discussed with your office on January 17, 1972.

The Secretary of Defense has invited us to participate in the new study; however, we have declined this request. We consider it essential that we not get involved in an agency's decisionmaking process in the event that we are called upon later to perform an independent evaluation of the matter. We will meet with agency officials, however, to discuss our observations and to suggest approaches to the study which may be helpful.

C2 One of the principle points to be discussed is the question raised by you and Congressman Skubitz concerning the Army's capability to load, assemble, and pack cluster bombs

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for the Air Force. This, of course, will include analyses of costs to load cluster bombs at Army plants and comparisons with private industry's costs to load Air Force cluster bombs.

We will also be prepared to evaluate, if appropriate, the new study when it is completed.

Sincerely yours,

A handwritten signature in dark ink, appearing to read "James B. Pearson". The signature is written in a cursive style with a prominent initial "J".

Comptroller General
of the United States

The Honorable James B. Pearson
United States Senate