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# REPORT TO THE CONGRES



## Savings Expected From Better Use Of Truck Warranties By Government Agencies

Department of Defense  
General Services Administration

*BY THE COMPTROLLER GENERAL  
OF THE UNITED STATES*

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MARCH 20, 1975



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

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To the President of the Senate and the  
Speaker of the House of Representatives

This is our report on savings expected from better use  
of truck warranties by Government agencies.

We made our review pursuant to the Budget and Accounting  
Act, 1921 (31 U.S.C. 53), the Accounting and Auditing Act of  
1950 (31 U.S.C. 67), and the Postal Reorganization Act of  
1970 (39 U.S.C. 2008(a)).

We are sending copies of this report to the Director,  
Office of Management and Budget; the Secretary of Defense;  
the Administrator of General Services; the Chairman of the  
Board, Tennessee Valley Authority; the Postmaster General;  
the Administrator, Energy Research and Development Adminis-  
tration and the Secretaries of the Army, Navy and Air  
Force.

*James B. Stacks*

Comptroller General  
of the United States

## C o n t e n t s

	<u>Page</u>
DIGEST	i
CHAPTER	
1 INTRODUCTION	1
2 NEED TO OBTAIN CONTRACT WARRANTIES EQUAL TO THOSE OFFERED THE GENERAL PUBLIC	3
Conclusions	5
Recommendation, agency comments, and our evaluation	6
3 OPPORTUNITIES TO RECOVER COSTS THROUGH GREATER USE OF BILLBACK AGREEMENTS	7
Conclusions	9
Recommendation, agency comments, and our evaluation	9
4 IMPROVEMENTS NEEDED TO INFORM VEHICLE USERS ABOUT WARRANTIES	10
M809 truck	10
M52 engine	11
Military bus	11
Conclusions	12
Recommendation, agency comments, and our evaluation	12
5 OTHER OBSERVATIONS	13
Warranty periods	13
Conclusions	14
Recommendation, agency comments, and our evaluation	14
Management surveillance	14
Conclusions	16
Recommendation, agency comments, and our evaluation	16
6 SCOPE	18
APPENDIX	
I U.S. Postal Service warranty clause effec- tive March 1974	21

		<u>Page</u>
APPENDIX		
II	Letter dated November 26, 1974, from the Assistant Secretary of Defense (Installations and Logistics)	22
III	Letter dated February 11, 1975, from the Deputy Administrator, General Services Administration	23
IV	Principal officials responsible for matters discussed in this report	28

#### ABBREVIATIONS

DOD	Department of Defense
GAO	General Accounting Office
GSA	General Services Administration
TACOM	Army Tank-Automotive Command

COMPTROLLER GENERAL'S  
REPORT TO THE CONGRESS

SAVINGS EXPECTED FROM BETTER  
USE OF TRUCK WARRANTIES BY  
GOVERNMENT AGENCIES  
Department of Defense  
General Services Administration

D I G E S T

WHY THE REVIEW WAS MADE

Discussions with major truck manufacturers disclosed to GAO that many Government agencies were not obtaining full benefits available through truck warranties. GAO wanted to know why, since the Government operates a substantial truck fleet covered by warranties.

A warranty guarantees that certain defects in material and workmanship found during the named period will be repaired or replaced by the manufacturer without cost to the buyer.

This period usually begins upon the vehicle's delivery to the user and continues for the time or mileage stipulated. For vehicles delivered within the 50 States, the warranty includes new parts to replace those that prove to be defective. When the Government elects to have the work performed by a dealer, labor costs are assumed by the manufacturer.

FINDINGS AND CONCLUSIONS

GAO examined records for 2,217 of the more than 334,000 warranted commercial and military-design trucks operated by Federal agencies and identified five principal ways to obtain greater benefits under warranties.

1. Better warranty terms obtainable

The Government could obtain warranties for diesel-powered and heavy-duty commercial trucks at least as beneficial as those that manufacturers provide to the public.

In 61 diesel-powered and heavy-duty truck contracts looked at by GAO, warranty periods were shorter than those offered commercial customers. (See p. 3.)

2. Greater use of billback agreements

Most Government agencies could take greater advantage of opportunities to recover costs through billback agreements. These agreements allow the Government to make warranted repairs and obtain reimbursement from the manufacturer when it is impracticable to return trucks to an authorized dealer. (See p. 7.)

U.S. Postal Service officials estimate that about \$1.5 million to \$2 million has been recovered annually through billbacks. Their projections indicate substantial reimbursements from

billbacks will continue although perhaps not as high as in past years. (See p. 8.)

3. Better warranty information for users

Users of military-design vehicles need better information about component warranties. Without this information, the Government may absorb repair costs which should be assumed by the manufacturer. (See pp. 10 to 12.) Military organizations could increase their warranty benefits by providing users with complete and timely warranty information.

4. Warranty starting dates

Government truck-using activities need clearer instructions for determining warranty starting dates. Present instructions have been subject to various interpretations. Users need to be told when the warranty starts on vehicles received at the using activity.

5. Improved management surveillance needed

Government truck-using activities are required to report repairs of warranted parts to the appropriate central control point, regardless of who performs them including those performed at no cost by the authorized dealer.

Many problems discussed in this report could have been

identified and corrected had the control points received and evaluated the required reports.

These control points are:

<u>Agency</u>	<u>Central warranty control points</u>
Air Force	Warner Robbins Air Logistics Center, Georgia
Army	National Maintenance Point, Warren, Michigan
Navy	Naval Facilities Engineering Command, Alexandria, Virginia Civil Engineering Support Office, Port Hueneme, California
All others	General Services Administration Headquarters, Washington, D.C.

RECOMMENDATIONS

1 The Secretary of Defense and  
2 the Administrator of General Services should require procurement offices or warranty control points to:

--Obtain warranties for diesel-powered and heavy-duty trucks, comparable to those provided to the public.

--Establish billback agreements to recover the costs of warrantable repairs when it is not practicable to return a vehicle to a dealer.

--Clarify instructions for determining warranty starting dates.

--Evaluate periodically the effectiveness of the warranty enforcement systems.

The Secretary of Defense should also instruct the Army Tank-Automotive Command to insure that users of warranted military-design vehicles and replacement components receive complete and accurate warranty bulletins clearly explaining the items covered by the warranty and the warranty terms. The Government should furnish these bulletins to the manufacturer for delivery to the user with the equipment.

#### AGENCY ACTIONS AND UNRESOLVED ISSUES

The Department of Defense agreed with these recommendations and reported that changes in vehicle procurement practices had been made to:

- Obtain warranties equal to those offered the public.
- Use billback agreements.
- Disseminate complete and accurate warranty bulletins.
- Clarify warranty starting dates.
- Evaluate and report periodically on the effectiveness of the warranty enforcement system. (See app. II.)

The General Services Administration also generally agreed and told GAO that:

- Its revised warranty clause should permit the Government to receive warranties comparable to those provided the public.
- Emphasis will be increased on informing agencies about the availability of billback agreements.
- Clarifying instructions for determining warranty starting dates would be issued.
- It planned to emphasize the importance of proper reporting through meetings and publications and through clarifying the reporting form and instructions. (See app. III.)

If the actions promised and in process are fully implemented, the Government should benefit from decreased maintenance expenditures through increased warranty enforcement.

#### MATTERS FOR CONSIDERATION BY THE CONGRESS

The Congress is not asked to take action on the basis of this report. The information it contains should assist committees and individual members concerned with procurement and maintenance of vehicles.

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## CHAPTER 1

### INTRODUCTION

The General Accounting Office reviewed warranty terms to determine whether the Government was obtaining the best terms available and was exercising them most effectively. We covered commercial over-the-highway trucks and military-design vehicles having components covered by warranties.

A warranty guarantees that specified defects in material and workmanship found during the named period will be repaired or replaced by the manufacturer without cost. The warranty period usually begins upon the vehicle's delivery to the user and continues for the time or mileage stipulated. For vehicles delivered within the 50 States, the warranty includes new parts to replace those that prove to be defective (e.g., starters, alternators, and water pumps). In addition, when the Government elects to have the work performed by a dealer, labor costs are assumed by the manufacturer.

The General Services Administration (GSA) and the Army Tank-Automotive Command (TACOM) have procurement responsibility for most Government automotive vehicles. Generally, GSA procures commercial vehicles for civil agencies and those under 10,000 pounds gross vehicle weight for the Department of Defense (DOD). Other DOD vehicles are normally procured by TACOM.

GSA and TACOM contracts for commercial trucks generally include warranties. TACOM also contracts on a limited basis for warranties on commercial components used in certain military-design trucks. Contracts provide for delivery to the using activity or, in some instances, to a Government storage area for future issue.

Warranty information can be provided through bulletins, decals, labels, data plates, or the warranty booklets furnished by the manufacturer. Truck operators or maintenance personnel are responsible for initiating claims based on their knowledge and understanding of the warranties.

Warranty repairs are normally obtained by taking the vehicle to an authorized dealer. If a contract includes a bill-back provision which permits the Government to make warranty repairs when it is not practicable or economical to take the vehicle to an authorized dealer, the manufacturer reimburses the Government for the repairs.

After repairs are made, truck users are required to report the warranty actions to designated Government control offices, which are responsible for issuing instructions for warranty enforcement. In addition, control offices are responsible for monitoring the enforcement of warranties; and, when applicable, they negotiate with the manufacturers any disputes that may arise between the truck operators and dealers.

In April 1974 Federal agencies were operating over 334,000 warranted commercial and military-design trucks.

## CHAPTER 2

### NEED TO OBTAIN CONTRACT WARRANTIES EQUAL TO THOSE OFFERED THE GENERAL PUBLIC

Government procurement offices should get the same warranty terms offered to the general public. GSA and TACOM have not obtained extended warranties for power train components (internal parts of the engine, transmission, differential, etc.) of diesel-powered and heavy-duty trucks that the manufacturers provide the general public on the same model trucks. As a result, Government agencies incur the expense of repairing costly components which the manufacturer would assume under an extended warranty.

Warranty terms in Government contracts awarded before December 1970 generally provided coverage for 24 months or 24,000 miles, whichever occurred first. Since 1970 most Government warranties have provided coverage for 12 months or 12,000 miles, whichever occurred first. Some contracts had power train component coverage up to 50,000 miles during this 12-month period. Commercial warranties for diesel-powered and heavy-duty vehicles, however, have generally provided extended power train coverage for 24 months or at least 100,000 miles.

We compared Government and commercial warranty terms in 61 contracts for diesel-powered and heavy-duty trucks. In each case, Government warranty terms for power train components were for shorter periods than those offered to the public. For example:

<u>Power train components</u>	<u>Government contract warranty</u>	<u>Commercial warranty</u>
Diesel engine	12 months or 50,000 miles	24 months or 100,000 miles
Crankshaft and cylinder block	12 months or 50,000 miles	36 months or 300,000 miles
Rear axle housing	12 months or 50,000 miles	36 months or 200,000 miles

Extended power train coverage in Government contracts could produce substantial savings in repair costs. Repair records for 312 trucks showed 263 power train repairs cost the Government about \$75,000 and averaged about \$240 a truck. These repairs were made after the contract warranties had expired but within the terms of the manufacturers' commercial

warranties. Examples of these warrantable repairs performed at Government cost follow.

<u>Truck-using agency</u>	<u>Mileages at time of repair</u>	<u>Warranted power train component replaced</u>	<u>Cost to the Government</u>
Army	43,321	Engine parts	\$ 535
Army	47,639	Engine block and head	1,241
Atomic Energy Commission	30,275	Camshaft, rings and pistons	220
Postal Service	36,915	Engine	1,723
Postal Service	25,277	Differential	256

Some Postal Service contracts had the 24-month or 24,000-mile provision covering the power train. Records for 216 heavy-duty trucks showed that, in 75 percent of these cases, the 24,000-mile limitation was used up in 12 months or less. Under commercial warranty terms, warranty life would have been extended and costs to replace power train components beyond the 24,000 miles would have been absorbed by the manufacturer.

TACOM procurement officials were aware that their contract warranties differed from commercial ones and they attempted to resolve the problem in 1972. An internal memorandum to TACOM's legal counsel stated the problem in the following terms:

"Recent warranty information furnished by commercial truck suppliers indicates that the Government is not obtaining full benefit of warranty coverage available to commercial users. Industry representatives have indicated willingness to furnish major component (power train) warranties in addition to the end item (vehicle) warranty. In many instances, the engine is warranted for 24 months/100,000 miles and in all instances the warranty exceeds the warranty we now specify. We have no reason to believe that the additional coverage will have any effect on price as it is routinely available to commercial customers."

The memorandum also asked the legal counsel to suggest ways in which the problem could be resolved.

The legal counsel suggested that contract warranty clauses be written in terms similar to commercial warranties. Procurement officials believed this would not be practical because commercial warranty terms varied among manufacturers. They also believed that asking for the manufacturer's

commercial warranty in invitations for bids would not be feasible because they had no way of evaluating the effect of different warranty terms on the bid prices.

In contrast to TACOM's position, the Tennessee Valley Authority's invitations for bids on heavy-duty trucks state that the manufacturer's commercial warranty will apply. Its procurement officials believe the minor differences in commercial warranties do not affect bid prices; and therefore they award the contract to the manufacturer who submits the lowest responsive bid.

We compared the commercial warranties offered by the major Government suppliers of heavy-duty trucks and found them to be the same except for minor differences in the percentage of labor costs absorbed by the manufacturer under the extended power train provisions. Several suppliers stated that they would honor their commercial warranties on Government vehicles. One manufacturer notified the Postal Service by letter that some of its trucks would still be covered under the commercial warranty even though the Government's warranty had expired.

Postal Service officials agreed that the truck warranties they were requesting could be improved. In April 1974 they informed us that a new warranty clause would be included in future contracts. (See app. I.) This new clause establishes minimum warranty terms and requires that the power train warranty be at least equal to that offered by the manufacturer and provided to the general public. In our opinion, a similar warranty clause could be adopted by TACOM.

When procuring trucks for agencies other than the Postal Service, GSA uses a warranty clause similar to that used by TACOM. GSA procurement officials told us that major truck suppliers annually provide them with information on their commercial warranty terms for the coming year. This information is used as the basis for the GSA warranty clause. While this method of establishing warranty terms may be acceptable for light and medium trucks, it does not provide for the extended warranty on the power train components for diesel-powered and heavy-duty trucks.

#### CONCLUSIONS

The Government can obtain cost savings by establishing, for diesel-powered and heavy-duty trucks, contract warranty terms at least as beneficial as those that manufacturers provide to commercial customers.

The Tennessee Valley Authority obtains commercial warranties and the Postal Service has initiated action to obtain warranties comparable to commercial ones.

RECOMMENDATION, AGENCY COMMENTS,  
AND OUR EVALUATION

We recommend that the Secretary of Defense and the Administrator of General Services require that their respective procurement offices obtain warranties for diesel-powered and heavy-duty trucks comparable to those provided to the general public.

DOD agreed with our recommendation and informed us that changes in vehicle procurement practices have been instituted to obtain warranties equal to those offered the general public. (See app. II.) GSA agreed that the Government should receive the same warranty offered to the public for all vehicles and informed us that the warranty clause in Federal specifications has been revised permitting the Government to receive warranties comparable to those provided the public. (See app. III.)

We plan to monitor the implementation of these actions.

### CHAPTER 3

#### OPPORTUNITIES TO RECOVER COSTS

##### THROUGH GREATER USE OF BILLBACK AGREEMENTS

Government truck-using activities often find it impracticable to return trucks to an authorized dealer for warranty repairs because

- the repair cost is small and does not justify the time and expense of returning the truck to the dealer,
- the dealer cannot make the repairs promptly, or
- there are no authorized dealers in the local area.

In these instances, Government agencies without billback agreements must absorb the repair costs (parts and labor). In fact, more than half of the warrantable commercial truck repairs we reviewed were performed at Government expense for the above reasons. These costs could have been recovered from the manufacturers had billback agreements been established.

Billback agreements may be established in the vehicle contract warranty clause or through separate agreements with manufacturers. The agencies we visited (see ch. 6), other than the Tennessee Valley Authority and the Postal Service, did not normally have billback agreements in their vehicle contracts. Only one location we visited, an Atomic Energy Commission contractor-operated maintenance facility, had separate billback agreements.

Apparently no guidance exists on including billback agreements in contracts. However, guidelines for establishing separate agreements are published in GSA's "Motor Vehicle Warranty, Delivery and Acceptance Guide." According to these guidelines (concurring in by the automotive manufacturers), agencies may request GSA assistance in establishing such agreements if the agency expects to have warranty repairs made in a Government repair shop or a nondealer garage because (1) there is no authorized dealer nearby or (2) emergency repairs are needed during periods other than the dealer's normal business hours. Similar guidance has not been published by TACOM.

Our review showed that there were opportunities to recover costs through billback agreements. We examined available repair records at 12 maintenance facilities for 1,351 light-, medium-, and heavy-duty commercial trucks and identified 697 repairs that were covered by Government contract warranties. Repair shops exercised warranty claims for 274 of the 697 repairs. The Government absorbed about \$40,000 for the remaining 423 repairs because it was considered impracticable to return the trucks to a dealer. Some examples of these repairs follow.

<u>Truck-using agency</u>	<u>Warranted component(s) replaced or repaired</u>	<u>Cost to the Government</u>
Corps of Engineers	Transmission, clutch, and drive line	\$499
Navy	Starter	30
Army	Rings and pinion gears	210
	Engine	599
	Camshaft	116
Air Force	Engine	113
GSA	Voltage regulator	18

The Postal Service has recognized that it may not always be practicable for dealers to repair trucks under warranty and, therefore, requires GSA to include billback provisions in its contracts. Postal Service officials estimate that \$1.5 million to \$2 million has been recovered annually. Their projections indicate substantial reimbursements from billbacks will continue, although perhaps not as high as in past years.

The billback provision currently used in Postal Service contracts provides that:

"\* \* \* If action to effect repairs under warranty is not initiated within three working days and completed within a reasonable length of time or if the contractor has no repair facilities in the city or county in which the vehicle operates, the Government reserves the right to make such repairs and be reimbursed by the manufacturer at the rate of \$10.50 per hour for labor based on the manufacturer's flat rate time schedule and the full cost of expenditures for parts. Where warranty is performed at a commercial garage because no manufacturer's or Government facility is available, the net cost of the parts and the actual cost of the labor will be billed to the manufacturer."



Except for the Postal Service and the Atomic Energy Commission, none of the personnel at the using activities reviewed was aware that billback agreements were available but said such agreements would be beneficial. Air Force and Navy officials responsible for forwarding vehicle purchase requests to TACOM and GSA, said they relied on the procurement offices to obtain the most beneficial terms.

### CONCLUSIONS

Most Government agencies could take greater advantage of existing opportunities to recover costs through billback agreements. The experience of the Postal Service has shown that billback agreements are beneficial to the Government. In our opinion, this experience demonstrates the feasibility of the billback concept.

### RECOMMENDATION, AGENCY COMMENTS, AND OUR EVALUATION

We recommend that the Secretary of Defense and the Administrator of General Services direct their respective procurement offices to require that agencies use, to the extent practicable, billback agreements to recover the costs of warrantable repairs when it is not practical to take the vehicle to a dealer.

DOD agreed with our recommendation and informed us that the Army had instituted changes in its vehicle procurement practices to use billback agreements to recover costs of warrantable repairs made by the Government. (See app. II.)

GSA agreed that all agencies should use billback procedures to the extent feasible. GSA officials emphasized that the procedures and methods for obtaining agreements are provided to the agencies. Officials informed us they will further publicize to customer agencies the fact that such procedures can be worked out with the manufacturer on an individual basis under certain circumstances. (See app. III.)

We plan to monitor implementation of these actions.

## CHAPTER 4

### IMPROVEMENTS NEEDED TO INFORM

#### VEHICLE USERS ABOUT WARRANTIES

Military truck operators or maintenance personnel are responsible for initiating claims based on their knowledge and understanding of the warranty terms. TACOM needs to make complete, accurate, and timely warranty information on military-design vehicles available. Without this information, the responsible personnel cannot properly determine whether a repair is covered under the warranty, and the Government may absorb repair costs which the manufacturer should assume.

Generally, TACOM does not request warranties on vehicles built to Government specifications (military-design vehicles). However, TACOM awarded a contract amounting to about \$370 million for the M809 series of military-design trucks which had certain commercial components covered by warranty. In addition, it procured warranted commercial diesel engines costing about \$34 million which were installed in the M52 truck and a military bus. In such instances, TACOM uses publications called technical bulletins to inform Army using activities of the warranty terms.

A review of the bulletins revealed that they were incomplete for the M809 truck, issued late for the M52 engine, and not issued for the military bus engine.

#### M809 TRUCK

The M809 series is a 5-ton truck chassis adaptable for various general purposes. TACOM's contract provided for shipping 19,788 of these trucks to various Army, Navy, and Air Force user activities between 1970 and 1972. The warranty terms which began upon delivery of the trucks provide for

- free replacement of 34 specific engine components and all other components having "Jeep" part numbers for 3 years or 50,000 miles, whichever occurs first;
- free replacement of 11 additional specific engine components for 5 years or 100,000 miles, whichever occurs first; and
- reimbursement of the Government's labor cost to replace the warranted parts at the contractor's prevailing hourly labor rate.

TACOM's technical bulletin omitted 17 of the 34 engine components and made no mention of components having Jeep part numbers. Although the bulletin mentioned that labor was reimbursable, it neither specified that reimbursement would be at the contractor's prevailing hourly rate nor set forth procedures for obtaining reimbursement of labor costs. Procedures for obtaining replacement of defective parts, however, were clearly defined.

None of the personnel we contacted at the user activities had complete information on the contract warranty for the M809 truck.

In addition to TACOM's technical bulletins being incomplete, warranty information was not sent to the Air Force and Navy offices responsible for warranty administration. Therefore, these service organizations did not issue any warranty information to their activities using the M809 truck.

#### M52 ENGINE

TACOM awarded a contract for 6,016 commercial diesel engines costing about \$27 million. The engines were installed in 5-ton tractors, model M52A1, which were delivered to the Air Force and the Army during 1969. Under the contract, the engines were warranted for 36 months or 50,000 miles, whichever occurred first, beginning with delivery.

TACOM did not issue its warranty technical bulletin until April 1971. By this time about two-thirds of the warranty had expired. Although the bulletin accurately stated the contract warranty terms, it did not identify the type or model of truck in which the engines were installed. Also, Air Force warranty administration personnel did not receive any warranty information on the engines.

In 1973 the engine manufacturer informed us that only 1 of the 6,016 engines had been involved in a repair claim under the warranty but he believed there must have been additional engines with defects. According to the manufacturer, the repair costs normally covered by warranty on engines of this type could average as much as \$150 per engine.

#### MILITARY BUS

TACOM awarded a contract for about 2,300 commercial diesel engines and transmissions costing about \$7 million. These components were used to repower Army passenger buses and were installed from 1968 to 1973. Under the contract, the engine and transmission are basically warranted for

24 months or 100,000 miles, whichever occurs first, beginning with installation. TACOM did not issue a warranty technical bulletin to the using activities. As a result, none of the personnel we contacted at the user activities had complete information on the contract warranty.

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TACOM officials agreed that their technical bulletins had not been complete or had not been issued. They stated that they had been unaware of these situations and promised to study the matter.

### CONCLUSIONS

Military organizations could increase their warranty benefits by providing complete and timely information to the personnel who must initiate warranty action. This is particularly important for military-design vehicles which are not normally warranted.

### RECOMMENDATION, AGENCY COMMENTS, AND OUR EVALUATION

We recommend that the Secretary of Defense instruct TACOM to insure that users of warranted military-design vehicles and replacement components receive complete and accurate bulletins clearly explaining the items covered by the warranty and the warranty terms. We suggest that TACOM furnish the bulletins to the manufacturer for delivery to the user with the equipment.

DOD agreed with our recommendation and informed us that the Army had instituted changes in its vehicle procurement practices to disseminate complete and accurate warranty bulletins to users. (See app. II.)

We plan to monitor implementation of these changes.

## CHAPTER 5

### OTHER OBSERVATIONS

We observed that the Government could obtain greater benefits from warranties by correctly determining warranty periods and by more aggressive management surveillance.

### WARRANTY PERIODS

Government truck-using activities need clearer instructions for determining warranty starting dates on those trucks shipped directly to them. The present instructions have been subject to various interpretations. In some instances, using personnel believed that a warranty still in force had expired and thus did not attempt to have warranted repairs made by the dealer.

Government contracts normally provide that the warranty period will start on the date of acceptance. Warranty enforcement instructions issued to the using agencies, however, do not explain how to determine this date. We found the following interpretations used to establish warranty starting dates.

1. The first or last day of the month in which the vehicle was delivered to the using activity.
2. The last day of the month before the month in which the vehicle was delivered to the using activity.
3. The day on which the using activity inspected the vehicle before putting it into service.
4. The date of Government acceptance shown on the data plate normally affixed to the vehicle.

According to TACOM and GSA procurement officials, the correct warranty starting date for trucks shipped directly to the users and priced f.o.b. destination is the day the vehicle is received at the using activity. This date is shown on the receiving document which the using activity signs to signify that it has actually received the vehicle.

At one activity the maintenance supervisor used the date of Government acceptance shown on the vehicle data plate as the warranty starting date. We compared the acceptance dates on the data plates for six commercial buses with the date the buses were received at the installation and found that the buses were received 10 months after the date stamped on the data plates. A review of the buses' maintenance records

disclosed that four warrantable repairs costing over \$1,700 were made at Government expense between the time the supervisor thought the warranty had expired and the date it actually expired. We also found similar situations at other activities.

### Conclusions

The present instructions for determining warranty starting dates need clarification because the term "date of acceptance" has been subject to various interpretations. Operators and maintenance personnel have incorrectly assumed that warranty periods have expired, and the Government has incurred repair costs which the manufacturer should have assumed. We believe the user needs to be told when the warranty starts on vehicles received at the using activity.

### Recommendation, agency comments, and our evaluation

We recommend that the Secretary of Defense and the Administrator of General Services require that their respective procurement offices clarify instructions for determining warranty starting dates.

DOD and GSA agreed to clarify the instructions, but GSA noted that only in a few isolated cases has this problem been brought to its attention. (See apps. II and III.)

We plan to monitor implementation of the clarified instructions.

### MANAGEMENT SURVEILLANCE

Central control points, which are responsible for monitoring warranty enforcement, could more adequately insure that using activities comply with established reporting requirements. Truck-using activities are required to report repairs of warranted parts to the appropriate central control point, regardless of who performs them including those performed at no cost by the authorized dealer. In our opinion, many of the problems discussed in this report could have been identified and corrected had the control points received and evaluated the required reports.

The central control points are as follows:

<u>Agency</u>	<u>Central warranty control points</u>
Air Force	Warner Robbins Air Logistics Center, Georgia
Army	National Maintenance Point, Warren, Michigan
Navy	Naval Facilities Engineering Command, Alexandria, Virginia Civil Engineering Support Office, Port Hueneme, California
All others	GSA Headquarters, Washington, D.C.

Discussions with management personnel at the control points disclosed that the number of truck-operating activities submitting the required reports was small considering the total number of reporting activities and vehicles in operation. As a result, control points could not effectively evaluate the use of contract warranties.

Several of the operating activities visited were unaware of the reporting requirements. None of the civil agencies visited was reporting the required instances to GSA. One of the users not aware of the required reporting was a GSA Interagency Motor Pool. Five other using activities were not reporting warranty actions although required by the appropriate central control points. Many activities were of the opinion that external reporting was required only if action had to be taken at the contract procuring office.

At the Air Force control point, the results of a study to determine whether the Air Force should continue to require the truck-using activities to submit reports for all types of warranty actions concluded that the practice should be continued, except for minor changes. This conclusion was reached because, on 750 notifications received in fiscal year 1972, it was successful in having manufacturers replace or supply parts under warranty valued at about \$125,000.

At the Army control point, we verified that many of the Army truck-using activities were not submitting the required notifications. An analysis of 1,259 reports received from stateside Army activities for the 19-month period ended January 1974 showed that no reports had been received from several activities we reviewed although warrantable repairs had been performed at Government expense. Also, over one-half of the 1,259 reports received were from only eight of the many activities.

At the Navy control points, few warranty claim reports had been received. Personnel at Port Hueneme have recognized the need for obtaining better information on warranty

enforcement and equipment reliability and are implementing a new computerized maintenance reporting system. This system is expected to keep track of all corrective vehicle maintenance, including warranty repairs performed in-house or by a dealer. In their opinion, such a system is necessary for management to effectively monitor maintenance and warranty enforcement.

Internal audit is another method by which management could be informed of warranty enforcement problems. We found only two instances where agency internal audits had been directed in this area. In April 1974, however, the Postal Service informed us it had suggested that its internal auditors spot check repair orders to determine whether or not full use was being made of warranties.

### Conclusions

Proper reporting and evaluation of warrantable repairs are necessary if central control points are to effectively identify and correct warranty enforcement problems. Also, control points need to insure that using activities comply with established reporting requirements.

### Recommendation, agency comments, and our evaluation

We recommend that the Secretary of Defense and the Administrator of General Services require the central warranty control points to periodically evaluate the effectiveness of warranty enforcement.

DOD agreed with our recommendation and informed us that action had been initiated to periodically evaluate and report on the effectiveness of warranty enforcement. (See app. II.)

GSA agrees that reporting and evaluation of warrantable repairs are necessary for effective warranty enforcement. GSA contends that its present reporting system is well known and is being followed by user agencies. It emphasized that GSA reviews and evaluates each report and takes action to resolve warranty problems when necessary.

Officials point out that, although GSA has a system for reporting vehicle deficiencies, it does not have the means to require other agencies to comply with its reporting system. They have agreed, however, to emphasize to user agencies the importance of proper reporting through periodic meetings and normal publications. The officials have also informed us that they are revising their reporting form and clarifying instructions for filing it. The revised form



will require more detailed information, and the instructions will emphasize reporting all repairs to warrantable parts, even those satisfactorily performed by the authorized dealer at no cost. (See app. III.)

We believe these actions should increase the reporting of warrantable repairs and should provide more complete information for use in evaluating how well users enforce warranties.

We plan to monitor implementation of these actions.

## CHAPTER 6

### SCOPE

We reviewed the warranty provisions of selected truck contracts awarded from 1968 through 1973, and the warranty information disseminated to the activities that used and maintained the vehicles. In addition, we examined the policies, procedures, and practices of various Government agencies for using warranties and evaluated the effectiveness of warranty reporting systems.

We also reviewed pertinent records for 2,217 warranted commercial and military-design over-the-highway trucks in use at selected Government activities. Generally, detailed repair records were not available for the entire period the trucks were under warranty. In some instances we could not determine whether a specific repair was under warranty nor the cost of specific repairs.

We conducted our review at the installations listed below.

**Army:**

Aberdeen Proving Ground, Maryland  
Corps of Engineers, Mobile, Alabama  
Fort Leonard Wood, Missouri  
Fort Lewis, Washington

**Air Force:**

Eglin Air Force Base, Florida  
Nellis Air Force Base, Nevada

**Navy:**

Naval Air Station, North Island, California

**United States Postal Service:**

Vehicle Maintenance Facility, New York, New York  
Vehicle Maintenance Facility, Philadelphia,  
Pennsylvania

**GSA:**

Interagency Motor Pool, Philadelphia,  
Pennsylvania

**Atomic Energy Commission:**

Mercury, Nevada  
Richland, Washington

We visited Government procurement offices, warranty control points, and commercial truck manufacturers and dealers. We also considered information obtained from several other truck-using installations during a survey, and we held discussions with Tennessee Valley Authority officials on its contracting practices and warranty enforcement system.

It was not our intent to question whether the Government should obtain warranties when procuring trucks but, rather, to determine whether the Government was obtaining full benefit from truck warranties.



## UNITED STATES POSTAL SERVICE WARRANTY CLAUSE

EFFECTIVE MARCH 1974

"The contractor hereby warrants the vehicle and all parts thereof to be free from defective material and workmanship for a period of two years from date of acceptance or 24,000 miles road travel, whichever occurs first. Additionally, the contractor shall warrant specific parts/components/assemblies/subassemblies (i.e., power train, alternator, etc.) to at least equal the warranty advertised and provided to the general public of such items. On vehicles procured f.o.b. destination and delivered by driveaway method, the 24,000 mile guarantee limitation will be in addition to the mileage accumulated by such driveaway method. On vehicles used within the 50 States of the United States and the District of Columbia, the guarantee shall include the furnishing, without cost to the Government, f.o.b. contractor's nearest dealer or branch or to the original destination if desired by the Government, of new parts and assemblies to replace any that prove to be defective within the guarantee period. In addition, when the Government elects to have the work performed by the contractor, the cost of the labor involved in the replacement of the defective parts or assemblies at the contractor's plant, branch, or dealer facility shall be borne by the contractor. On vehicles used outside the 50 States and the District of Columbia, the guarantee shall include the furnishing of new parts or assemblies which shall be delivered by the contractors to the port of embarkation in the United States designated by the Government. The contractor shall not be required to bear the cost of the labor involved in correcting defects in vehicles used outside the 50 States and the District of Columbia. If action to effect repairs under warranty is not initiated within three working days and completed within a reasonable length of time or if the contractor has no repair facilities in the city or county in which the vehicle operates, the Government reserves the right to make such repairs and be reimbursed by the manufacturer at the rate of \$10.50 per hour for labor based on the manufacturer's flat rate time schedule and the full cost of expenditures for parts. Where warranty is performed at a commercial garage because no manufacturer's or Government facility is available, the net cost of the part and the actual cost of the labor will be billed to the manufacturer."

APPENDIX II



ASSISTANT SECRETARY OF DEFENSE  
WASHINGTON, D.C. 20301

NOV 26 1974

INSTALLATIONS AND LOGISTICS

Mr. R. W. Gutmann  
Director, Procurement and Systems  
Acquisition Division  
U. S. General Accounting Office  
Washington, D. C. 20548

Dear Mr. Gutmann:

This is in response to your letter of September 30, 1974 to the Secretary of Defense, which forwarded your draft report entitled "Opportunities to Obtain Greater Benefits from Truck Warranties" (OSD Case 3912).

The Military Departments unanimously agree with the findings and recommendations of your report to improve management, reporting and control of warranties for commercial and military-designed vehicles purchased for and by the Department of Defense.

The Department of Defense, as you may be aware, published Defense Procurement Circular No. 74-2, dated 4 October 1974, providing further guidance and policy on Warranties including use, cost benefits, enforcement, trade practices, contracts for commercial items, contractor's obligations, equitable adjustments, duration, etc. Additionally, the Army and Air Force have already instituted changes in vehicle procurement practices that support the recommendations identified in your report such as (1) obtain warranties equal to those offered the general public, (2) use bill-back agreements to recover costs of warrantable repairs performed by the government, (3) disseminate complete and accurate warranty bulletins to the user, (4) clarify warranty starting dates, (5) periodically evaluate and report on the effectiveness of the warranty enforcement system.

We wish to thank you for your continued interest and assistance in the vehicle warranty area.

Sincerely,

A handwritten signature in cursive script that reads "Arthur I. Mendolia".

ARTHUR I. MENDOLIA  
Assistant Secretary of Defense  
(Installations & Logistics)

UNITED STATES OF AMERICA  
GENERAL SERVICES ADMINISTRATION  
WASHINGTON, DC 20405

FEB 11 1975



Honorable Elmer B. Staats  
Comptroller General of the United States  
General Accounting Office  
Washington, DC 20548

Dear Mr. Staats:

On November 21, 1974, we provided you with our comments on the draft report to the Congress on Opportunities to Obtain Greater Benefits from Truck Warranties.

On December 4, 1974, a meeting was held between officials of the General Accounting Office (GAO) and the General Services Administration (GSA) to discuss the report and the GSA comments. As a result of this meeting, we would like to provide revised comments which are included in the attachment to this letter.

Sincerely,

A large, stylized handwritten signature in black ink that reads "Dwight Ink".

Dwight A. Ink  
Deputy Administrator

Enclosure

## APPENDIX III

### GSA Comments on GAO Draft Report to the Congress on Opportunities to Obtain Greater Benefits From Truck Warranties (Code 950082)

#### GAO FINDINGS AND RECOMMENDATIONS

During a survey to determine why the Government was not realizing maximum benefits from truck warranties and identify ways in which greater benefits could be obtained, GAO found that: (1) the Government could obtain warranties for diesel-powered and heavy-duty commercial trucks which are at least as beneficial as those offered the general public; (2) most Government agencies could make greater use of bill-back agreements with manufacturers, thus allowing the Government to make warranty repairs and obtain reimbursement from the manufacturer when it is impractical to return trucks to an authorized dealer; (3) users of military-design vehicles need better information concerning component parts covered by warranty, whereby military organizations could increase their warranty benefits; (4) Government truck using activities need clearer instructions for determining warranty starting dates; and (5) improper reporting of repairs to equipment under warranties have caused many problems. GAO made recommendations to DOD and GSA, shown below with GSA comments.

#### GSA POSITION

Recommendation 1. We recommend that the Secretary of Defense and the Administrator of General Services require that their respective procurement offices obtain warranties for diesel-powered and heavy-duty trucks that are comparable to those provided to the general public.

Comment. We agree that the Government should receive the same warranty offered to the public for all vehicles purchased and have made revisions to our specifications.

This warranty requirement contains the following clause:

"The entire vehicle (except tires and tubes, if warranted by their manufacturers and normal maintenance services) shall be warranted for one year from date of acceptance or 12,000 miles road travel, whichever may occur first. Engine and



power train components (as covered by the vehicle manufacturer's standard warranty to the general public for the current year of manufacture), shall be warranted at 50 percent of the normal charge for parts and labor imposed by the dealer or other authorized facility from 12,001 to 50,000 miles provided this occurs within the original 12 months. Provided, however, that if the contractor receives from any supplier or subcontractor any additional warranty on the whole or any component of the vehicle, either in the form of greater time and/or mileage or otherwise and including any pro-rata type arrangement, or if the contractor generally extends to his commercial customers a greater warranty coverage than that provided the Government under this contract, the Government shall receive corresponding warranty benefits."

In view of this requirement, we believe that GSA is now obtaining the same warranty coverage offered the general public on the trucks in question.

In addition, the revised "Motor Vehicle Warranty, Delivery, and Acceptance Guide" now "New Vehicle Guide: Warranty, Delivery, Acceptance, and Recall of Motor Vehicles", to be published in the near future, will include instructions and the warranty provisions as follows:

"2. Warranty periods.

a. Sedans, station wagons, and trucks, 4 x 2 and 4 x 4, 10,000 GVW and under. The manufacturer or contractor shall warrant the entire vehicle (see subpar. 4c) for a minimum period of 12 months or 12,000 miles, whichever may occur first; the 12,000 miles shall be exclusive of any authorized driveway mileage.

b. Trucks over 10,000 GVW. The manufacturer or contractor shall warrant the entire vehicle (see subpar. 4c) for 1 year or 12,000 miles (exclusive of any authorized driveway mileage), whichever may occur first. A conditional warranty also may apply to engine and power train during the first year and between 12,001 and 50,000 miles if the manufacturer warrants these components to the general public for a current year of manufacture."

BEST DOCUMENT AVAILABLE

APPENDIX III

Recommendation. We recommend that the Secretary of Defense and the Administrator of General Services direct their respective procurement offices to require that agencies use to the maximum extent practicable bill-back agreements to recover the costs of warrantable repairs when it is not practicable to take the vehicle to a dealer.

Comment. We agree that all agencies should use bill-back procedures to the maximum extent practicable. Such procedures are, in fact, cited in GSA Form 6317, Instructions to Consignee Receiving New Motor Vehicle, Purchased by GSA, and methods to be used in obtaining such agreements are shown in the new vehicle guide. These agreements are now being obtained on a case-by-case basis. This GSA Form 6317 is presently being revised and instructions for filing are being clarified. The revised form will require more detailed information and the instructions will emphasize reporting all repairs to warrantable parts, even those satisfactorily performed by the authorized dealer at no cost.

We have, from time-to-time, discussed the matter of bill-back with the manufacturers and have been advised that they would be very reluctant to bid on general solicitations containing such a requirement.

Even though we don't believe such procedures should be included in all of our contracts, we will further publicize to our customer agencies the fact that such procedures can be worked out with the manufacturer on an individual basis under certain circumstances.

Recommendation. We recommend that the Secretary of Defense and the Administrator of General Services require that their respective procurement offices clarify instructions for determining warranty starting dates.

Comment. Only in a few isolated cases has this problem been brought to our attention. However, we will take action to include clarifying instructions in the Federal Property Management Regulations, GSA Form 6317 and the new vehicle guide.

Recommendation. We recommend that the Secretary of Defense and the Administrator of General Services require the central warranty control points to periodically evaluate and report on the effectiveness of the warranty enforcement systems.

BEST DOCUMENT AVAILABLE

Comment. We agree that reporting and evaluation of warrantable repairs are necessary for effective warranty enforcement. However, we do not believe that a warranty "enforcement system," per se, is necessary. All Government activities for which GSA purchases vehicles are aware of the fact that new vehicles are covered by a warranty, normally, the same warranty as offered to other fleet operators.

GSA Form 6317, which is furnished the using activity with each GSA purchase order, and the GSA New Motor Vehicle Guide, which is available from our regional office, cite the existence of the warranty, go in to some of its provisions, and advise the agencies how to effect repairs under the warranty.

GSA procedures for reporting vehicle deficiencies (including those corrected under warranty) are fully explained in the FPMR 101-26.501-6(c), the above referenced GSA Form 6317, and the new motor vehicle guide.

Based on the large number of reports (GSA Form 1718, Unsatisfactory Equipment Report) that are received, it is our contention that the established deficiency reporting system is well known and is being followed by our civilian customers.

The number of reports received from our military customers is small; however, this may be attributed to the fact that the military services have their own procedures set up which require the reports be sent to their own ordering offices.

All deficiency reports received by GSA are reviewed, evaluated, and action is taken when considered necessary.

Although we have this system for reporting vehicle deficiencies we do not have the means to require other agencies to comply with our system. However, we will emphasize to user agencies the importance of proper reporting through periodic meetings and normal publications.

APPENDIX IV

PRINCIPAL OFFICIALS  
 RESPONSIBLE FOR MATTERS  
 DISCUSSED IN THIS REPORT

	<u>Tenure of office</u>	
	<u>From</u>	<u>To</u>
<u>DEPARTMENT OF DEFENSE</u>		
SECRETARY OF DEFENSE:		
James R. Schlesinger	June 1973	Present
William P. Clements, Jr. (acting)	Apr. 1973	June 1973
Elliot L. Richardson	Jan. 1973	Apr. 1973
Melvin R. Laird	Jan. 1969	Jan. 1973
Clark M. Clifford	Mar. 1968	Jan. 1969
ASSISTANT SECRETARY OF DEFENSE (Installations and Logistics):		
Arthur I. Mendolia	Apr. 1973	Present
Hugh McCullough (acting)	Jan. 1973	Apr. 1973
Barry Shillito	Feb. 1969	Jan. 1973
Thomas D. Morris	Oct. 1967	Feb. 1969
<u>GENERAL SERVICES ADMINISTRATION</u>		
ADMINISTRATOR:		
Arthur F. Sampson	June 1972	Present
Rod Kreger (acting)	Jan. 1972	June 1972
Robert L. Kunzig	Mar. 1969	Jan. 1972
Lawson B. Knott, Jr.	Nov. 1964	Feb. 1969
COMMISSIONER, FEDERAL SUPPLY SERVICES:		
Michael J. Timbers	June 1973	Present
Milton S. Meeker	Jan. 1972	June 1973
Lewis E. Spangler (acting)	May 1971	Jan. 1972
H. A. Abersfeller	Mar. 1970	May 1971
Lewis E. Spangler (acting)	Dec. 1969	Mar. 1970
Arthur F. Sampson	June 1969	Dec. 1969
Lewis E. Spangler (acting)	May 1969	June 1969
H. A. Abersfeller	May 1964	May 1969

<u>Tenure of office</u>	
<u>From</u>	<u>To</u>

UNITED STATES POSTAL SERVICE

## POSTMASTER GENERAL:

Benjamin F. Bailar	Feb. 1975	Present
E. T. Klassen	Jan. 1972	Feb. 1975
Merrill A. Hayden (acting)	Oct. 1971	Dec. 1971
Winton M. Blount	Jan. 1969	Oct. 1971
W. Marvin Watson	Apr. 1968	Jan. 1969

ATOMIC ENERGY COMMISSION (note a)

## CHAIRMAN:

Dixy Lee Ray	Feb. 1973	Jan. 1975
James R. Schlesinger	Aug. 1971	Feb. 1973
Glenn T. Seaborg	Mar. 1961	Aug. 1971

ENERGY RESEARCH AND DEVELOPMENT ADMINISTRATION

## ADMINISTRATOR:

Robert C. Seamans	Jan. 1975	Present
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TENNESSEE VALLEY AUTHORITY

## CHAIRMAN OF THE BOARD:

Aubrey J. Wagner	May 1969	Present
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a/ Effective January 19, 1975, the Atomic Energy Commission was reorganized and the responsibilities for matters discussed in the report were assumed by the Energy Research and Development Administration.



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