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Improvements Needed in the Administration of the Army's Million-Mile Warranty on Trucks in Europe. PSAD-78-45; B-139743. December 8, 1977. 9 pp. + appendix (6 pp.).

Report to Secretary, Department of Defense; by Richard W. Gutmann, Director, Procurement and Systems Acquisitions Div.

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In 1972, the Army purchased from International Harvester Company 656 commercial-type truck tractors with a "10-year or million-mile" warranty on selected components. The warranty covers both parts and labor and specifies that the contractor will provide replacement parts within 15 days after warranty determination. If such parts are not provided, the Army can procure the parts from other sources and obtain reimbursement from International Harvester.

Findings/Conclusions: A review of the million-mile warranty by the Army Audit Agency in April 1975 reported many problems with the program. Two years later, the Army was still experiencing many of the same problems, including an average time lapse of about 228 days to receive replacement parts on approved warranty claims and the resolution of almost every disputed warranty claim in favor of the contractor. The U.S. Army Tank-Automotive Materiel Readiness Command agreed that it has been experiencing difficulties with the administration of this warranty and that the major problem has been the length of time International Harvester takes to replace warranted parts. The Command has recently taken several actions to improve warranty enforcement, support timeliness, and assure coordination with Army units in Europe. The replacement time has also been reduced from 228 to 90 days. It is extremely important that the Army develop procedures to obtain satisfactory service under such warranties because the Army's future plans may require buying large numbers of commercial trucks; these trucks will be covered by similar extended warranties, and it is likely that some of these trucks will be operated outside the United States. Recommendations: The Secretary of the Army should monitor the Command's progress in resolving these matters. If these actions do not produce an acceptable replacement time, the Army should consider stocking a limited number of replacement parts at Army depots in Europe. (Author/SC)

04402



*UNITED STATES
GENERAL ACCOUNTING OFFICE*

Improvements Needed In The Administration Of The Army's Million-Mile Warranty On Trucks In Europe

In 1972, the Army purchased 656 commercial-type truck tractors with a "10 year or million-mile" warranty on selected components. GAO found the Army was experiencing difficulties in administering this warranty. The Army has taken corrective action, but because these difficulties persisted for several years, the Secretary of the Army should monitor progress in resolving the difficulties.



UNITED STATES GENERAL ACCOUNTING OFFICE

WASHINGTON, D.C. 20548

PROCUREMENT AND SYSTEMS
ACQUISITION DIVISION

B-139743

The Honorable
The Secretary of Defense

Dear Mr. Secretary:

The enclosed report summarizes the results of our review of the Department of the Army's "10-year or million-mile" warranty on trucks in Europe.

This report contains a recommendation to the Secretary of the Army on pages 8 and 9. 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 Senate Committee on Governmental Affairs and the House Committee on Government Operations 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 Secretary of the Army; the Administrator, Office of Federal Procurement Policy; and the Acting Director, Office of Management and Budget.

Sincerely yours,

A handwritten signature in black ink, appearing to read "R. W. Gutmann".

R. W. Gutmann
Director

Enclosure

GENERAL ACCOUNTING OFFICE
REPORT TO THE
SECRETARY OF DEFENSE

IMPROVEMENTS NEEDED IN THE
ADMINISTRATION OF THE ARMY'S
MILLION-MILE WARRANTY ON
TRUCKS IN EUROPE

D I G E S T

The Tank-Automotive Materiel Readiness Command awarded an \$8.1 million contract to International Harvester Company on March 31, 1972, for the purchase of 656 5-ton truck tractors. These truck tractors, designated the F-2000D, were assigned to the Army's 37th Transportation Group based in Kaiserslautern, Germany. The Group is to operate a highway transport system and to provide combat support in an emergency.

The contract extended the basic warranty coverage on engines, transmissions, and rear axles to include corrective maintenance for a million miles or 10 years. The warranty covers both parts and labor and specifies that International Harvester will provide replacement parts within 15 days after warranty determination. If such parts are not provided, the Army can procure the parts from other sources and obtain reimbursement from International Harvester.

The Army Audit Agency reviewed the million-mile warranty and reported in April 1975 (see p. 5) that

- the Army paid for many truck repairs and was not reimbursed because warranty claims were not submitted,
- claim rejections were not challenged although the rejections were not considered valid, and
- waiting periods for replacement parts have been abnormally long (periods of 100 to 200 days were not uncommon).

Army officials in Europe agreed with the audit report and stated corrective action would be taken.

Two years later, GAO found that the Army was still experiencing many of the same problems that Army auditors had reported. The problems still needing attention were:

--It was taking about 228 days to receive replacement parts on approved warranty claims. (See p. 2)

--Disputed warranty claims were resolved in favor of the contractor in almost every instance. (See pp. 2 and 3.)

The U.S. Army Tank-Automotive Materiel Readiness Command agreed that it has been experiencing difficulties with the administration of this warranty and that the major problem has been the length of time International Harvester takes to replace warranted parts. The Command stated that it had recently taken several actions to improve warranty enforcement, support timeliness, and assure coordination with Army units in Europe. The Command also stated that the length of replacement time has been reduced from 228 to 90 days. (See app. I.)

The Army initiated several corrective actions. These problems, however, have existed since at least April 1975 and are not new--timely parts replacement has been the subject of a great deal of recent correspondence between the Command and the Army in Europe.

We believe, therefore, that the Secretary of the Army should monitor the Command's progress in resolving these difficulties.

If these actions do not produce an acceptable replacement time, we suggest that the Army consider stocking a limited number of replacement parts at Army depots in Europe.

It is extremely important that the Army develop procedures to obtain satisfactory service under

such warranties because (1) the Army's future plans may require buying larger numbers of commercial trucks, (2) these trucks will be covered by extended warranties similar to the warranty on the F-2000D, and (3) it is likely some of these trucks will be operated outside the United States.

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ABBREVIATIONS

GAO	General Accounting Office
IHC	International Harvester Company
TARCOM	Tank-Automotive Materiel Readiness Command
USAREUR	United States Army, Europe

CHAPTER 1

INTRODUCTION

While we were performing a followup review of our earlier report "Savings Expected from Better Use of Truck Warranties by Government Agencies," (PSAD-75-64, Mar. 20, 1975), we noted that the Army was experiencing difficulties with the administration and enforcement of its "million-mile or 10-year" warranty which covers certain commercial-type trucks used in Europe.

We requested comments from the Tank-Automotive Materiel Readiness Command (TARCOM) on August 26, 1977, and TARCOM provided both oral and written comments on October 17, 1977. (See app. 1.)

TARCOM awarded an \$8.1 million contract to International Harvester Company (IHC) on March 31, 1972, for the purchase of 656 5-ton F-2000D truck tractors. These trucks were assigned to the Army's 37th Transportation Group, located in Kaiserslautern, Germany. The Group is to operate a high-way transport system and to provide combat support in an emergency.

The contract extended the basic warranty coverage on engines, transmissions, and rear axles to include corrective maintenance for 1 million miles or 10 years. The warranty covers both parts and labor (\$8.20 per labor hour) and specifies that IHC will provide replacement parts within 15 days after warranty determination, or the Army can procure the parts from other sources, repair the truck, and seek reimbursement from IHC. This arrangement is generally called a billback agreement.

The truck or component is accompanied by a description of the problem when it arrives at its Army maintenance center. A technical inspector examines the vehicle at the quality control section and attempts to determine the failure and the parts needed. The center's maintenance supervisor is notified if the inspector determines the failure is caused by malfunction of a warranted part. The supervisor prepares a suspected warranty claim and notifies the in-country IHC representative. The IHC representative examines the truck or component and approves or disapproves the warranty claim. If the claim is approved, it is sent to the IHC home office for payment. The supervisor can accept the determination or disagree with the representative if the IHC representative disapproves the claim. Disputed warranty claims are sent to TARCOM for resolution.

CHAPTER 2

DIFFICULTIES WITH THE MILLION-MILE WARRANTY

CONTRACTOR REPLACEMENT OF WARRANTED PARTS

It was taking about 228 days (range of 756 to 34 days) to receive replacement parts from IHC on approved warranty claims. Army units in Germany, therefore, were ordering replacement parts through normal supply channels because it was taking so long to get replacement parts from IHC.

TARCOM COMMENTS

TARCOM agreed that IHC has taken excessive time to replace warranted parts. TARCOM pointed out that IHC has had problems such as parts not available due to strikes, lost shipments, and in some cases shipments returned to the United States from Germany. However, IHC performance has improved during the past several months and delivery time was reduced to under 90 days.

BETTER COORDINATION IS NEEDED BETWEEN TARCOM AND USAREUR

The Equipment Support Center, Kaiserslautern, sends its approved and/or disputed warranty claims to TARCOM. TARCOM does not advise the Center of the claims' status. The Center first learns of warranty claim status when it receives parts from IHC.

The Center had to send TARCOM followup notifications on many claims before all parts were received; up to five notifications were necessary. Center officials pointed out that the time taken to obtain these parts indicates the poor support provided by TARCOM in processing the Center's warranty claims.

The Center sent 13 disapproved claims to TARCOM for resolution. TARCOM closed eight of the claims for lack of legal documentation to support litigation. TARCOM requested substantial data and supporting documentation to legally challenge IHC's position. In response, a logistics assistant at the USAREUR wrote TARCOM:

"Certainly, troop units using/supporting the 2000D do not want nor can afford to engage in an administrative paperchase trying to obtain substantive evidence to support litigation; nor would the JAG

office involve itself in a TARCOM/IHC warranty dispute; nor would it be wholly practicable to send each failed part to TARCOM (or where directed) for analysis and evaluation * * *. What's needed is timely, authoritative resolution of warranty actions and providing the parts required."

Center officials stated they did not have the necessary skilled people, metallurgical facilities, or legal expertise to develop the requested data. As a result, after sending TARCOM two followups on the remaining five claims, the Center closed the claims because it believed TARCOM would again request legal data and proof. The estimated value of the 13 disputed claims was about \$10,000 for parts and \$6,600 for labor (808 labor hours x \$8.20).

Center officials stated an additional seven claims disapproved by IHC were not forwarded to TARCOM as disputes though the officials believed the disapprovals were questionable. These officials believed that previous TARCOM experience showed that submission of the claims would be fruitless without irrefutable supporting evidence for litigation. It was pointed out that TARCOM has taken the position that

"Statements of general nature regarding alleged opinions of various Equipment Support Center personnel or USATACOM Field Maintenance technicians do not provide grounds to challenge the IHC warranty denial."

Center officials, however, maintain that it is generally a question of subjective expert mechanic opinion in disputed cases. USAREUR officials believe they lack an effective appeal channel because of TARCOM's position and, therefore, must rely solely on the integrity of IHC's representative to benefit from the warranty coverage.

TARCOM COMMENTS

TARCOM agrees that warranty disputes, except in one case, have favored IHC and that there has been a lack of understanding and coordination between the Center and TARCOM in the past. However, TARCOM does not feel there are currently problems in this regard.

According to TARCOM there are no current cooperation problems between TARCOM and USAREUR or TARCOM and the

contractor. All personnel involved are cooperating to the fullest to resolve warranty claims. A recent check established that there are three approved warranty claims on hand at the Center for which parts have not been received. A special management procedure has been established for this vehicle that involves a weekly review of warranty status. TARCOM explained that it must be able to prove that the warranty terms were breached and, if field elements are unable to provide positive data, it is limited in actions that can be taken. Statements by experts, while helpful, are not enough to pursue a warranty denial. If disagreements occur, often the most viable alternative is to return the parts to the United States for analysis, to be used for supportive evidence in litigation with IHC.

CHAPTER 3

OTHER OBSERVATIONS

IHC WARRANTY REVIEW BY THE ARMY AUDIT AGENCY

In 1974, the Army Audit Agency reviewed the IHC warranty on F-2000D trucks in Europe. The Audit Agency reported on April 30, 1975, that:

- The Army paid for many repairs on the IHC trucks and has not been reimbursed because warranty claims were not submitted.
- Claim rejections by IHC's representative were not challenged, though rejections were not considered valid.
- Waiting periods for replacement parts have been abnormally long. Periods of 100 to 200 days are not uncommon.

USAREUR agreed with the Audit Agency's findings and stated

- all disputed claims will be submitted to TARCOM for resolution,
- warranty-related problems will be documented and forwarded to TARCOM, and
- a review of available work orders has caused the submission of many warranty claims.

Our followup indicates the problems cited by the Army Audit Agency have continued to exist and the proposed corrective action was not effective.

TARCOM COMMENTS

TARCOM has no comments on the extracts from the Army's audit report. No record exists that a copy of this report was provided to TARCOM.

COMMERCIAL REPAIR OF F-2000D TRUCK ENGINES

USAREUR headquarters contracted with the DAF Company (a Dutch firm) to rebuild 37 F-2000D truck engines. The first

contract covered two engines to determine if DAF could rebuild F-2000D engines. A second contract was awarded for five engines because repair turnaround time at the Center was averaging 108 to 190 days. The longer turnaround time at the Center is caused by the time it takes to order and receive parts from the United States (100 to 180 days). A third contract was awarded to DAF for 30 engines on March 1, 1977.

The DAF Company is located in Eindhoven, Holland, and 33 percent of its equity is owned by IHC. The latest contract specifies that engines will be rebuilt in 30 days unless a 12-day turnaround is requested. This contrasts sharply with IHC's performance in providing replacement parts to Army units under its warranty provisions. In addition, conditions of the contract provide that DAF personnel and/or the IHC representative will determine the cause of engine malfunctions at the DAF plant. If these officials find that the engine malfunctioned as a result of IHC-warranted conditions, parts and labor required to repair the malfunctioning item will be provided at no cost.

All parts replaced during rebuild will be returned with the engine since the cause of engine malfunction will not be determined before shipment to DAF, and there will be no Army officials to observe the engine when it is disassembled. Parts returned with the engine will be visually inspected and a warranty claim submitted when appropriate. USAREUR officials agreed that under this arrangement visibility over warranty claims may be lost since Army personnel will no longer disassemble and analyze the probable cause of failure. However, these officials believe that this procedure is as effective as the previous experience the Center has had with TARCOM.

TARCOM COMMENTS

TARCOM was unaware of the contract between DAF and USAREUR involving the F-2000D truck engines. USAREUR has stated that a one-time contract was let for repair of 37 backlogged engines. USAREUR further states that a Center representative was present when the first seven engines were disassembled.

OUR RESPONSE

USAREUR states a representative was present for the disassembly of the first 7 engines; however, no mention was made of a representative being present at the disassembly of

the remaining 30 engines. This tends to support USAREUR's position at the time of our review that visibility over warranty claims would be reduced.

CHAPTER 4

CONCLUSIONS, AGENCY COMMENTS, AND RECOMMENDATION

CONCLUSIONS

The Army has not received full benefit from the warranty it procured because (1) IHC has not provided replacement parts within the agreed time and (2) TARCOM has not acted to require performance by IHC. The Army Audit Agency reported on these matters in April 1975 and proposed corrective action. The problem, however, continues to exist. Army units, therefore, now order parts from normal supply channels when such parts should be obtained from IHC.

In the case of the disputed claims, poor coordination and a lack of understanding or communications between TARCOM and USAREUR has effectively relieved IHC of liability.

These conditions have caused a major problem with the availability of repair parts in Europe. Army readiness, therefore, could be affected because the 37th Transportation Group is to provide combat support in an emergency.

AGENCY COMMENTS

TARCOM agreed that IHC has taken excessive time to replace warranted parts and that there has been a lack of understanding between USAREUR and TARCOM in the past. TARCOM stated the following actions were being taken:

- Frequent contacts are being made with IHC about warranty support, especially the time IHC takes to supply replacement parts.
- A reconciliation of warranty claims was made and there are only three claims outstanding.
- A procedure has been instituted for a weekly review in detail on the status of warranty claim actions.

TARCOM pointed out that the length of replacement time has been reduced from 228 days to 90 days and that IHC has not been relieved of liability. (See app. I.)

RECOMMENDATION

The Army has initiated several corrective actions. These problems, however, have existed since at least April

1975 and are not new--timely parts replacement has been the subject of a great deal of recent correspondence between TARCOM and USAREUR. We believe, therefore, that the Secretary of the Army should monitor TARCOM's progress in resolving these difficulties.

If TARCOM's actions do not result in an acceptable replacement time, we suggest that the Army should consider stocking a limited number of replacement parts at Army depots in Europe. IHC should, of course, still supply the replacement parts to the Army. Such an agreement may be more cost effective than the current administrative costs being incurred by the Army and IHC on this warranty.

It is extremely important that the Army work out procedures to obtain satisfactory service under such warranties because (1) the Army's future plans may require buying larger numbers of commercial trucks, (2) these trucks will be covered by extended warranties similar to the warranty on the F-2000D, and (3) it is likely that some of these trucks will be operated outside the United States.



DEPARTMENT OF THE ARMY
US ARMY TANK-AUTOMOTIVE MATERIEL READINESS COMMAND
WARREN, MICHIGAN 48090

DRSTA-M(NMP)

17 OCT 1977

Mr. John A. Rinko
Assistant Director, Procurement
and Acquisition Division
US General Accounting Office
Washington, DC 20548

Dear Mr. Rinko:

Thank you for the opportunity of commenting on the proposed GAO letter to the Secretary of the Army concerning matters related to the million-mile or 10 year warranty covering trucks used in Europe.

There have been difficulties with administration of this particular warranty, but I do not believe conditions are as bleak as indicated in your letter. The primary problem has been that contractor replacement of warranty parts has taken an excessive time to reach the user.

We have taken several actions recently to improve warranty enforcement, timeliness of support, and to insure coordination with USAREUR elements, principally the Equipment Support Center in Kaiserslautern. Frequent contacts have been made with IHC concerning warranty support, especially repair parts replacement time. Significant improvement has been made in this area. Secondly, we have had a reconciliation with the Europe repair facility which has clarified some previous confusion concerning duplicate warranty control numbers and as of 13 October 1977, there were only three F-2000D claims for which repair parts had not been received by the user. Further, we have instituted a procedure to review in detail, on a weekly basis, the status of warranty claims actions for this vehicle to include the exact status of parts shipments.

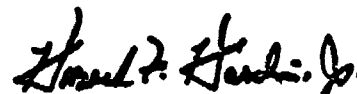
17 OCT 1977

DRSTA-M(NMP)
Mr. John A. Rinko

We believe that the Government is realizing a significant return from this warranty and with the intensified effort now in effect, future problems will be few and handled expeditiously.

Our specific comments on the proposed letter are inclosed.

Sincerely yours,


HAROLD F. HARDIN, JR.
Major General, USA
Commanding

1 Incl
as

TARCOM comments on GAO Draft Letter Report to Secretary of the Army -
"Million-Mile Warranty" covering 5 ton trucks in Europe.

[See GAO note p. 15]

TARCOM concurs that it has taken the contractor an excessive time to provide replacement parts. However, much improvement has been made during the past several months and the average time has been reduced to under 90 days. As of 13 October 1977, there were only three claims for which replacement parts had not been provided.

[See GAO note p. 15]

TARCOM agrees that warranty disputes, except in one case, have been resolved in favor of KRC.

[See GAO note p. 15]

[See GAO note p. 15]

TARCOM concurs that there has been a lack of understanding and coordination in the past in some cases; however, there are currently no problems in this regard.

[See GAO note p. 15]

Under terms of the contract, warranty determinations are made by the IHC in-theatre technical representative. TARCOM is certainly willing to pursue any warranty that the user feels has been improperly denied. Statements by experts, while helpful, are not enough with which to pursue a warranty denial. If disagreements occur, often the most viable alternative is to return the parts to CONUS for analysis, which can be used for supportive evidence in litigation with IHC.

[See GAO note p. 15]

TARCOM has no comments on the extracts from the AAA Report. No record exists that a copy of this report was provided TARCOM. A check with local AAA officials and DARCOM Headquarters was negative.

[See GAO note below]

TARCOM was unaware of the contract between DAF and USAREUR involving the F-2000D Truck engines.

USAREUR has stated that a one time contract was let for repair of 37 backlogged engines.

USAREUR further stated that a representative from the ESCK was present when the first seven engines were disassembled.

[See GAO note below]

GAO note: Comments that do not pertain to the final draft have been deleted.

(950412)