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The present Department of Defense mobilization planning with private industry does little to strengthen U.S. industrial capacity to meet emergency requirements. Findings/Conclusions: The Department's planning with individual contractors to produce and support the military material required for American defense forces in a national emergency is inadequate. Contractors' capacity projections to meet wartime requirements are generally unreliable, and little is done once the data is received by the services to overcome forecasted production problems. The overall adequacy of industries' capability to meet mobilization requirements is, in many instances, unknown. Present planning is being attempted on too large a scale in relation to available funding. There are neither planners to adequately plan nor sufficient funding to carry the planning forward. The credibility of the program with industry has been lost. Recommendations: Rather than continuing the program on the present scale, planning objectives should be brought more in line with available resources. The Secretary of Defense should require a restructure of the Industrial Preparedness Planning program, taking into consideration the need to determine the priority of the program in the overall defense strategy and to match what can be accomplished with resources to be committed. (Author/SC)

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REPORT TO THE CONGRESS

*BY THE COMPTROLLER GENERAL
OF THE UNITED STATES*

Restructuring Needed Of Department Of Defense Program For Planning With Private Industry For Mobilization Production Requirements

The Present Department of Defense mobilization planning with private industry does little to strengthen U.S. industrial capacity to meet emergency requirements. Planning data often lacks adequate analysis and little is done by the services to correct problems when such analysis is performed. Consequently the program's credibility with industry has been lost.

GAO recommends that the program be restructured.



COMPTROLLER GENERAL OF THE UNITED STATES

WASHINGTON, D.C. 20548

E-140389

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

This report discusses the effectiveness of the Department of the Defense's program planning with private industry to satisfy mobilization production requirements.

We made this review because mobilization preparedness affects the Nation's defense posture and the program was receiving increased attention by the Defense Department in an attempt to improve that posture. We wanted to know, and we believed the Congress should know, whether this program was achieving its goals. Our review was made pursuant to the Budget and Accounting Act, 1921 (31 U.S.C. 53), and the Accounting and Auditing Act of 1950 (31 U.S.C. 67).

We are sending copies of this report to the Director, Office of Management and Budget; the Secretary of Defense; and the Secretaries of the Air Force, Army, and Navy.

A handwritten signature in black ink, reading "James B. Starks".

Comptroller General
of the United States

COMPTROLLER GENERAL'S REPORT TO THE CONGRESS RESTRUCTURING NEEDED OF DEPARTMENT OF DEFENSE PROGRAM FOR PLANNING WITH PRIVATE INDUSTRY FOR MOBILIZATION PRODUCTION REQUIREMENTS

D I G E S T

The Department of Defense's planning with individual contractors to produce and support the military materiel required for American defense forces in a national emergency is, in GAO's opinion, inadequate.

Contractors' capacity projections to meet war-time requirements are generally unreliable, and little is done once the data is received by the services to overcome forecasted production problems. The overall adequacy of industries' capability to meet mobilization requirements is, in many instances, unknown. (See pp. 3 and 9.)

This program for planning with industry to meet national emergencies comes under the Industrial Preparedness Planning program. While the central control for this program rests with the Office of the Secretary of Defense, the services are responsible for developing plans with individual contractors for defense items critical to wartime needs.

Department of Defense planning costs for the 15 months ended September 30, 1976, were estimated to be about \$9 million. Contractors' costs are not known because they participate on a voluntary basis and are not paid directly for their planning efforts. Some contractors may, however, receive reimbursement through overhead charges to defense contracts. (See p. 9.)

There is little assurance that the contractors' projected production capacity figures can fulfill the projected national emergency requirements because production projections generally are not based on adequate analysis. Prime contractors often obtain no input from the key subcontractors, and they generally assume that key ingredients, such as Government-owned production equipment, raw materials, and skilled labor, will be available. (See pp. 3, 4, and 5.)

Even if a contractor performs indepth analyses and identifies measures needed to maintain a wartime production capacity, little is done by the services to correct forecasted problems. One industry representative said, "The plans are treated as file stuffers." (See pp. 7 and 9.) Consequently, the program credibility with industry has been lost.

Present planning is being attempted on too large a scale in relation to available funding. There are neither enough planners to adequately plan nor sufficient funding to carry the planning forward. (See p. 17.)

The Office of the Secretary of Defense and the services recognize that weaknesses exist in the present program. Several new program initiatives have been introduced. However, the basic problem has not been faced--the failure to establish priorities so that competing demands for limited resources can be resolved.

Two of the new initiatives may involve considerable costs and should be pursued cautiously. These are Government-funded planning with contractors and prestocking long-leadtime components. (See pp. 12 to 16.)

Rather than continuing the program on the present scale, planning objectives should be brought more in line with available resources. GAO recommends that the Secretary of Defense require a restructure of the Industrial Preparedness Planning program, taking into consideration these issues

- determining the priority of the program in the overall defense strategy and

- matching what can be accomplished with resources to be committed.

The Department of Defense said it is devoting increased management attention to improving the effectiveness of the program. In accord with GAO's recommendations, Defense said a reevaluation had started which will cover all the program's aspects, including related policy

and planning. The reevaluation will take 9 to 12 months and should improve the program.

Regarding a GAO suggestion that Defense postpone funding for planning with contractors and prestocking long-leadtime components until a reevaluation has been completed, Defense said funding for contractor planning has been curtailed and programs to prestock long-leadtime components would be limited to components that have no adverse cost impact. Defense proposes to procure only selected long-leadtime items a year in advance. This change in plan is responsive to GAO's suggestion.

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ABBREVIATIONS

DOD Department of Defense
GAO General Accounting Office
OSD Office of the Secretary of Defense

CHAPTER 1

INTRODUCTION

The Department of Defense (DOD) is responsible for mobilization planning to assure that sufficient industrial capacity exists to meet potential wartime needs for defense systems, equipment, and component parts. The greatest share of this industrial capacity is in the private sector consisting of factories that assemble and ship completed defense material and subcontractors or vendors that provide the multitude of parts and components which are sent to the final assembly points. This capacity, along with the Government-owned plants, is often referred to as the defense industrial base. Since the private industrial capacity represents the greatest share of the defense industrial base, we concentrated our efforts on that sector. Past reports, as listed in appendix II, have covered other aspects of the defense industrial base.

On maintaining this industrial capacity, the Secretary of Defense in a recent annual DOD report said:

"A viable industrial base is a major element of our national strength and deterrent posture, and maintaining the capacity of that industrial base to respond to potential wartime demands continues to be a major consideration in our defense planning. In some specific areas, however, we have experienced a gradual erosion of the defense industrial base. Material scarcities, increases in production lead times, and the cost burden to comply with safety, health, and environment protection requirements are symptoms of this erosion. In addition, private industry is less willing to accept the complexities of doing business with the Defense Department as the proportion of defense spending in the economy decreases."

DOD officials have expressed concern over the diminishing number of subcontractors and the growing dependence on foreign sources for military parts and components. Through recent attempts to quantify the problem of a diminishing subcontractor base, DOD has identified several military items for which there is inadequate production capacity, including aircraft engines, radar, landing gears, and navigation systems. Shortages were also observed in tank hull castings, gun mounts, and infrared systems.

BACKGROUND

Industrial preparedness planning evolves from the Defense Production Act of 1950 and amendments thereto. The President has delegated responsibility for emergency preparedness functions to executive branch departments and agencies.

- Under Executive Order 11051, issued in September 1962, the Director of the Office of Emergency Preparedness is responsible for advising and assisting the President in determining policy for emergency plans and preparedness assignments of Federal departments and agencies.
- Under Executive Order 11490, issued in October 1969, Federal departments and agencies were assigned emergency preparedness functions. Under section 401 of the order, the Secretary of Defense is responsible for various emergency functions, including (1) developing plans with industry for procuring and producing selected military equipment and supplies needed to fulfill emergency requirements and (2) taking the necessary actions to overcome problems with maintaining an adequate mobilization production base.

To implement the Executive orders, the Office of the Secretary of Defense (OSD) issued guidance to the services to aid in developing plans with private industry. This guidance specified that each service should limit its planning efforts to approximately 2,000 items. Each weapon system, component, or spare part selected should be essential to operational effectiveness under combat conditions or to personnel safety and survival and meet one or more of the following criteria:

- Require a long leadtime for delivery.
- Require development of new or additional capacity to meet emergency production requirements.
- Require continuous surveillance to assure preservation or an adequate base to support emergency production requirements.
- Require critical personnel skills or specialized production equipment.

The limitation on the number of items was further clarified by the suggestion in the guidance that the number of major weapon systems selected for planning by each service should not normally exceed 35.

CHAPTER 2

INDUSTRY PLANNING DATA--

INSUFFICIENT AND UNRELIABLE

The Department of Defense relies heavily on defense contractors production capacity to meet potential wartime equipment needs. The services request selected defense contractors to submit annual forecasts of production capacity for specified systems, equipment, and component parts including, if necessary, suggested measures for increasing this capacity (production planning). These annual contractor forecasts are often insufficient and unreliable. This situation has evolved mainly because the program has lost its credibility with industry. As a result, potential mobilization problems may not be surfaced and dealt with. Moreover, industry capability to meet potential wartime demands is in many instances unknown.

INDUSTRY--WHAT IS EXPECTED?

On the basis of estimated wartime requirements, the services request selected producers of critical military items to perform indepth production planning, taking into account the capacity of subcontractors to provide critical components and the availability of production equipment, special tooling, raw materials, and skilled labor. Also, when capacity is inadequate or bottlenecks are identified, contractors are expected to recommend action to improve or increase capacity.

INDUSTRIAL PREPAREDNESS PLANNING-- WHAT IS BEING PROVIDED?

Industry is providing little indepth planning. Filling out the production planning schedules has become a proforma exercise. Some refuse to plan at all. Some producers provided current production capacity without any attempt to provide planning for accelerated production. Others filled out the schedules but performed inadequate planning. Frequently, planning was not being done to assure that lower tier subcontractors were capable of furnishing needed components. Also, the Government and contractors were making unrealistic assumptions as to the condition and availability of Government-owned production equipment, raw materials, and skilled labor. In those instances where the contractors did identify problems in meeting DOD needs, the recommendations frequently lacked substance and could not be used.

Lack of subcontractor planning

Without lower tier subcontractor planning, prime and first tier suppliers' production forecasts are often unrealistic and unreliable. Moreover, a lack of suppliers or limited production capacity for critical components may not be identified.

In a January 1975 letter, one planned producer expressed the importance of extending planning beyond first tier subcontractor levels:

"The primary reason for our decision to not participate in these IMP's [planning schedules] is the inability for us to predict delivery of these units due to uncertain availability and leadtimes for steel investment castings, steel forgings, special mill-run aircraft quality stainless steel, alloy bar stock and plate, and bearings."

This producer refused to plan without knowing production leadtimes and rates. More frequently, however, planned producers will submit production forecasts without considering lower tier supplier capacity. A Warner Robins Air Logistics Center analysis, for example, showed that for 860 fiscal year 1976 planning schedules, only 25 involved formal subcontractor planning.

Planners at other installations reviewed agreed that frequently complete subcontractor planning is not done. For example, at the Army Tank-Automotive Materiel Readiness Command, subcontractor planning was apparent on only 8 of the 84 planning schedules reviewed.

Planned producers provided two reasons for not doing subcontractor planning: (1) subcontractor planning was not extended due to related cost and effort and (2) subcontractor planning was not necessary.

At the Navy Aviation Supply Office, 6 of 20 planning schedules reviewed contained statements indicating subcontractor planning had not been extended due to the effort and cost involved. Of the other schedules, five indicated that subcontractor planning was not performed but no explanations were provided.

Overall, OSD officials are concerned with the lack of subcontractor planning. In their opinion, industrial capacity for assembling major end items, such as aircraft, is not as much a problem as limited lower tier sources for

components, parts, and materials. OSD is concerned that the lower tier production capacities may be diminishing and that this is not being indicated.

Unrealistic assumptions

The validity of industry's planning data is further strained by the assumptions made about many factors that could affect mobilization production capacity. For example, planned producers frequently assume Government-owned equipment packages not used in current production are complete and in good working condition. However, some planned producers stated they had not inspected such equipment packages and others had inspected the equipment but found it badly outdated and, in some instances, incomplete. Also, industry planning schedules were prepared assuming needed raw materials would be available. Finally, critical components and parts are frequently not planned for, but instead are assumed to be available.

A 1975 Department of the Army report on industrial mobilization planning questioned the validity of these assumptions. One of the findings was that industrial preparedness planning uses too many assumptions "to the point of assuming away virtually every problem area encountered."

Insufficient supporting data

The absence of information supporting producer recommended actions to increase capacity generally reflects the lack of planning. DOD instructions call for suggested measures to be sufficiently supported to enable military planners to compare their costs and benefits. For example, Air Force instructions require that recommendations, consisting of stockpiling long-leadtime critical components for the planned item, be supported by showing quantities, part numbers, nomenclature, acquisition leadtime, unit prices, and the annual cost, if any, for storage and maintenance.

This information is needed so the prestockage cost and benefits--in terms of reduced war reserve costs--can be determined. This information is generally not being supplied. At the Warner Robins Air Logistics Center, for example, planners concluded that 650 of the approximately 1,100 selected planned items in fiscal year 1976 either contained no information, did not propose measures to shorten leadtimes when insufficient capacity was indicated, or the measures proposed did not have enough information for Warner Robins planners to analyze.

Similarly, planners at the Army Tank-Automotive Materiel Readiness Command and the Navy Aviation Supply Office agreed that, generally, when actions were recommended by planned producers they were frequently vague and incomplete.

Not only can vague and unsupported recommendations stagnate decisionmaking, but they can also lead planners to the wrong decisions. For example, the Air Force asked a prime contractor to obtain production data from a subcontractor and incorporate the data on planning schedules. This arrangement was necessary because the subcontractor--the major supplier of parts for three kinds of aircraft--did not want to participate in formal planning. Later, however, the prime contractor began to process the planning schedules containing estimates of its in-house manufacturing capacity for the required items. The planning schedules for these items showed that for several of them, forecasted mobilization requirements could not be met without considerable Government expenditures for prestocking materials and components.

Warner Robins planners, unaware of a change in the planning arrangement, assumed the planning data reflected the subcontractor's capabilities and recommended to higher headquarters approval of several of the measures. Thus, based on production estimates from a contractor that had not produced the items, the Air Force planners concluded a deficiency existed. Further, the Warner Robins planners recommended that about \$1.4 million be spent to overcome production deficiencies which, in fact, may not exist.

Fortunately, because of funding limitations, these measures were not implemented. However, it does demonstrate the current planning data is an unreliable basis for initiating costly measures for increasing production capability.

Army and Air Force studies of industrial preparedness planning confirmed that many producers are not doing indepth planning. As a result of experiences in attempting to increase tank production, the Army concluded a reassessment of industrial mobilization planning for other major end items was needed to "determine their reasonableness, accuracy, and sufficiency, particularly under present day conditions." The resulting study showed planning was not realistic and could not be relied on. The study also showed that second tier and below subcontractor planning was practically nonexistent.

A 1975 Air Force study contained similar conclusions. It cited mobilization planning as ranging "from excellent

to unsupportable in terms of traceability to reasonable analyses of plant capacity, tooling and manpower availability, and other important factors."

INDUSTRY'S REASONS FOR LACK OF PLANNING

Planned producers said their production schedules were frequently based on assumptions rather than indepth analysis. Producers questioned whether it was feasible or reasonable to develop production data for realistic production forecasts annually. They said the process is costly and the Government will not make funding available to implement planning results.

Responding to an Army request for industry's opinion of the preparedness planning program, one major defense contractor stated:

"* * * we are of the opinion that our responses [production planning schedules] are treated as 'file stuffers' by the services since evidence of any action resulting from our comments and the Industrial Preparedness Measures (IPM) recommended by us is completely lacking."

* * * * *

"Second tier (subcontractor) planning is almost non-existent unless a subcontractor is in the production mode. There is absolutely no incentive for second tier subcontractors to plan. To carry this premise to a conclusion, the signed agreement with a prime contractor means that the country's mobilization base is built on a sand foundation and we are right back to the pre-World War II capability to mobilize for National Defense."

Other selected comments showing industry's views of industrial preparedness follow. (See app. I for list of companies interviewed.)

"The magnitude of the effort involved with regard to time and money precludes [industry] from doing anything more than simply filling in the blanks * * *"

"Production schedules are simply looked upon as a pro-forma exercise * * * the primary benefit * * * being they demonstrate a contractor's willingness to supply certain items in an emergency."

"Assumptions certainly simplified the planning effort since one could easily assume all problems away."

"Projected capacity was unknown due to * * * inability to determine the vendor support it would need or could expect."

"* * * the voluntary aspect of the program was its major defect. The cost of quality planning was an expenditure of considerable resources in money, manpower, and computer time which could not be justified * * *"

"In addition no studies have been conducted considering real constraints imposed by scarce leadtime items."

"The Industrial Preparedness Planning Program as it stands could be done away without any adverse effect on the mobilization base."

"This is not planning but pure conjecture * * * you do not need production schedules for this."

"* * * in any event national studies on basic industries as they affect various special industries would be a first step needed as the basis for any producers Industrial Preparedness Planning effort. Without such data, Industrial Preparedness Planning is little more than a pro-forma exercise."

"Failure of the Air Force to respond to Industrial Preparedness Measures of past planning indicates a lack of management interest on the part of the Air Force."

"Army planners in the past have encouraged [us] to develop Industrial Preparedness Measures * * * but little ever results from these measures presumably because of a lack of funds."

"No feedback on our Industrial Preparedness Measures has ever been received. This leads us to believe that industrial preparedness planning is no more than an exercise and that no one really cares."

CHAPTER 3

LITTLE ACCOMPLISHED WITH INDUSTRY PLANNING DATA

Industry production capability forecasts are only the first step in industrial mobilization planning. Military planners must review and evaluate industry planning. Where production capacity is inadequate, industrial preparedness measures should be considered to assure that needs are met. Despite the importance of this function on the Department of Defense's ability to meet potential wartime equipment needs, the services do not have the planning personnel to review and evaluate industry planning data or the funding to implement measures to overcome problems relating to maintaining an adequate mobilization production base. However, more personnel or funds may not accomplish the stated goals.

The Office of the Secretary of Defense and the services readily admit existing industrial preparedness planning is inadequate. OSD has passed down several new program initiatives aimed at improving planning effectiveness. Although, it is too early to pass judgment on all of the new policies, some may have questionable benefits.

INDUSTRIAL PREPAREDNESS PLANNING-- NOT MEETING INTENDED OBJECTIVES

DOD-wide, about 7,000 items ranging from major weapon systems, such as tanks and aircraft to electronic components and repair parts, were included in the Industrial Preparedness Planning program during fiscal year 1976. For these items, DOD activities estimated it cost about \$9 million during the 15 months ended September 30, 1976, for preparedness planning. These costs were primarily personnel costs. The considerable industry planning costs being passed on as part of overhead costs in Government contracts were not available. About 8,800 planned producers participate in the program.

For the approximately 7,000 items being planned, military planners are supposed to

- develop plans with industry for procuring and producing selected military equipment and supplies needed to fulfill emergency requirements and
- take the necessary actions to overcome problems relating to an adequate mobilization production base.

At the military planning activities included in this review, we observed planning workloads far exceeded the capabilities of allocated planning personnel to

--review industry planning data or

--analyze the planning for recommending actions to overcome identified deficiencies.

Also, available funding was insufficient for implementing planning recommendations.

At the Army Tank-Automotive Materiel Readiness Command, for example, planning for 8 weapon systems and 239 planned items was being attempted by 2 full-time planners--one of whom was added during our review. According to officials, this installation's shortage of planners prevented them from

--reviewing and validating industry planning schedules and

--analyzing the planning data from the standpoint of recommending measures to overcome mobilization deficiencies.

On implementing actions to provide an adequate mobilization base, one official stated that since recommendations by them for the implementation of measures were seldom funded, planners were becoming increasingly discouraged from making them.

Similarly, at the Navy Aviation Supply Office, manpower resources currently devoted to industrial preparedness planning are inadequate to effectively evaluate industry planning or initiate measures to overcome production problems. At this installation, the partial services of eight persons--estimated to be the equivalent of 1.5 staffyears of effort--were used for a planning workload consisting of about 130 items. The planning officials said that industrial preparedness planning cannot be effective with the limited resources--people and dollars--being put into it. In their opinion, adequate resources should be put into the program, or it should be dropped completely.

The Warner Robins Air Logistics Center's planning personnel were the most vocal in their criticism of the program. The following comments were obtained from planning personnel:

- Planning suffers from lack of management from DOD down to the lowest level. The program does not receive emphasis or funding. Data is sent forward but no feedback is received on how it is used. Program accomplishments are not known.
- Item selection for planning is a weak point. "We in the program have killed it" because of the "nuts and bolts" items selected, too many items selected, and unrealistic requirements sent to the contractors.
- Because of contractors nonparticipation, the size of the wartime industrial base cannot be determined. If mobilization occurs, procurement money will be available and the industrial base will be much larger than it now appears.
- Planning with sole-source producers determines the capacity of an item's industrial base. However, item planning by only one contractor on competitive items determines the capacity of that contractor rather than the capacity of the item's industrial base.

Also, Warner Robins' officials favored eliminating the program because so little is done. In a letter to the Air Force Logistics Command, it was stated:

" * * * more than five (5) IPP cycles have been completed and several thousand items have been selected and sent to industry and repair facilities for planning. To date, no funds have been provided to purchase Industrial Preparedness Measures (IPM) * * * for one single item at WR-ALC [Warner Robins-Air Logistics Center]; therefore all of the manpower expended to date had been an effort of futility."

* * * * *

"Throughout the period of involvement in Southeast Asia, these measures were not implemented and it was possible to satisfy Air Force requirements through a judicious application of priorities and allocations. Based on past experience of this program, recommend this program be eliminated."

At the Naval Air Systems Command and the Air Force Aeronautical Systems Division, we observed planning also suffered from a lack of resources. At the Naval Air Systems

Command, we were told that aircraft planning analyses were seldom forwarded to higher headquarters because nothing would result from it. Money is not available to fund measures to increase production capacity, so the deficiencies cannot be corrected.

Army and Air Force servicewide studies tend to confirm the above observations. The 1975 Army review of industrial preparedness planning showed that indepth review of industry planning and analysis of measures to overcome production base problems are not being adequately performed. Other findings were:

- Army planning activities were severely understaffed-- both in numbers and experience.
- Items were being planned unnecessarily.
- Coordination between current procurement and industrial preparedness planning was inadequate.
- Communication between industry and Army planners was inadequate.

A 1975 Air Force study also found the Industrial Preparedness Planning program ineffective. To make the planning more effective, the study recommended that measures to overcome production deficiencies--on a priority basis--be funded.

OSD INITIATIVES

OSD, recognizing weaknesses in the current program, has passed down to the services several new management initiatives. Among these are:

- Reimbursing selected producers for planning.
- Prestocking critical components instead of complete end items.
- Expanding planning down through second and third tier producers.
- Establishing an early warning system to identify potential supplier closedowns and material shortages.
- Modernizing production equipment.

--Reducing and streamlining paperwork involved in planning with industry.

--Coordinating current procurement with planning.

Additionally OSD, realizing only limited information existed on which industrial base decisions could be based, has endorsed industrywide studies examining the basic structure of key sectors of the defense industry and their capacity.

Two of these new initiatives, in our opinion, could involve considerable costs and should be cautiously pursued by DOD. These are (1) Government-funded planning, either in the form of formal contractor studies or paying individual contractors to provide the type of data presently being submitted and (2) prestocking critical components.

Government-funded planning

Currently, Government-funded formal studies to determine the industrial capacity of individual suppliers are being emphasized. The Air Force, for example, obtained three industrial mobilization studies in 1975 costing about \$280,000 from individual planned producers of aircraft avionics, engines, and engine spare parts. Similarly, planners at the Army Tank Automotive Materiel Readiness Command have requested funding of \$700,000 for two industrial mobilization studies with the individual suppliers of M-60 series tank engines and transmissions.

Moreover, short of the formal industrial mobilization studies, a trend towards paying producers for planning exists. This type of planning falls in between the voluntarily obtained production planning schedules and the more detailed industrial mobilization studies. Reimbursing planned producers is intended to result in more reliable planning data.

Government-funded planning is primarily aimed at demonstrating that planned producers can increase capacity to meet the mobilization requirements. As a result, specific measures directed toward increasing capacity--facilities expansion, new machinery, tooling, and stockpiles of long-leadtime components--are based on requirements, business conditions, and the state of technology during the study. These factors, however, are dynamic. For instance

--requirements fluctuate,

--subcontracting services are not constant, and

--technology moves forward.

Consequently, the life of such studies is short. One contractor performing such a study for the Air Force concluded:

"If no Industrial Preparedness measures are taken at this time and mobilization would occur at a later date * * *, the Contractor's capability would be even less than that in this study. This is due to natural attrition of sources of supply, a continuation of the switch of capacity from jet engines to other commercial products and of a continuation of the disposal of obsolete and under-utilized facilities."

Regarding the usefulness of such planning, one industry official stated his company would not undertake such a detailed production study with its own funding unless expansion was planned. But, the company would be willing if it were reimbursed.

It appears that the services will continue with individual planned producer studies. For example, the Air Force Logistics Command, in response to Warner Robins Air Logistics Center's reluctance to obtain a mobilization study because of the questionable expected benefit, ordered the study because:

"The Air Staff, with AFLC [Air Force Logistics Command] support, is negotiating with the OSD to obtain recognition and funding of IPP [Industrial Preparedness Planning] programs. OSD has endorsed studies as a basis for funding; hence, they are a necessity in our continuing effort to obtain funding. Unfortunately, it cannot be determined at this time if funds will be available to implement any of the contractor's recommendations. However, conversations with the Air Staff indicate that specific proposals will receive serious consideration based on their stated objectives and relative merit."

Air Force personnel at the Warner Robins Air Logistics Center also questioned paying contractors because the data costs will escalate rapidly as previously voluntary program participants refuse to plan without reimbursement. They also said it is "almost impossible" to determine which items they should buy planning data on.

Prestocking long-leadtime components

Another new OSD industrial preparedness initiative receiving increasing emphasis is prestocking long-leadtime components. In an April 1975 memorandum, the Acting Assistant Secretary of Defense (Installations and Logistics) requested the military services to make a study of the benefits of prestocking materials. The memorandum said, in part, that:

"Recent experience indicates that a major pacing element in total wartime production leadtime is material leadtime. The provision of large amounts of industrial plant equipment will be nullified if appropriate amounts of manufacturing material and components, e.g., forgings, sheet material, etc., are not readily available. The alternatives available are to establish unnecessarily expensive [War Reserve Materiel] end item stockpiles, implement IPMs [Industrial Preparedness Measures] involving the prestockage of manufacturing material and components, or simply accept the risk of not being able to support the wartime surge requirement."

Although the Navy endorsed the prestockage concept, the Air Force reacted negatively. The Air Force stated that there would be no savings from implementing prestocking measures because funds had not been provided for procuring all needed peacetime and wartime aircraft spare stocks.

Regardless of the arguments put forth by OSD and the services for and against prestocking, the concept is questionable because benefits concerning reduced end item production leadtime are dependent on identifying and stockpiling all long-leadtime components for any given end item. Partial stockpiling of long-leadtime components pertaining to a particular end item could be wasteful since no overall reduction in the leadtime of the end item may be gained. Because the current planning data is unreliable--especially with the lack of formal subcontractor planning--there is no assurance all long-leadtime components pertaining to the particular end item being planned will have been identified for stockpiling.

Moreover, even if complete and reliable planning could be assured through more indepth producer planning on a Government reimbursed basis, the problem of rapidly changing conditions continues. The planning would have to be continuously updated to assure that prestocked items had not become obsolete and that other critical components have not become long-leadtime components--thus requiring prestocking--due to natural attrition of supply sources. If addi-

tional long-leadtime components are not promptly identified, the benefits gained, in terms of reduced end item leadtimes, could be negated even with a great investment in the components already prestocked.

CHAPTER 4

CONCLUSIONS, RECOMMENDATION, AGENCY

COMMENTS, AND OUR EVALUATION

CONCLUSIONS

The Industrial Preparedness Planning program is not meeting its intended objectives of:

- Developing adequate plans with industry for procuring and producing selected military equipment to fill emergency requirements.
- Taking the necessary actions to overcome problems relating to development of an adequate mobilization production base.

The plans being developed are seldom supported by in-depth planning. Major planning deficiencies are:

- A lack of subcontractor planning to assure prime end-item capacity can be matched by adequate critical component production.
- The use of unrealistic assumptions.
- A lack of information supporting measures being recommended to increase industrial capacity.

Moreover, when industry plans do surface mobilization problems little is done about them.

A major problem with present industrial preparedness planning is it is done on too large a scale with too little funding. The result is inadequate review, followthrough, and implementation of the planning. As evidenced by our discussion with industry and military planners, insufficient funding--pointed up by a lack of personnel and the lack of action to overcome problems relating to the mobilization base--has resulted in a loss of program credibility with everyone.

Most of the new OSD management initiatives appear sound, with the exception of funded mobilization studies and prestocking of long-leadtime components. However, the problem of failing to establish priorities so that competing demands on limited resources can be resolved still exists. In our opinion, continuing to plan for items beyond what can be accomplished with available funds will result in further loss of program credibility.

We believe that rather than continuing on the present scale, planning objectives should be brought more in line with what can be accomplished with available resources.

RECOMMENDATION

We recommend that the Secretary of Defense restructure the Industrial Preparedness Planning program, taking into consideration these issues:

- What priority does maintaining an industrial mobilization base have in the overall defense strategy?
- What level of resources can be committed to this effort?
- What can be accomplished within this level of resources?

Two important alternatives that should be considered in restructuring the industrial preparedness planning effort are

- individual item planning limited to what can be accomplished with available resources and
- industrywide planning to examine the basic structure of key sectors of the defense industry and its related capacity--again limiting the scope to what can be done within the established funding commitment.

AGENCY COMMENTS AND OUR EVALUATION

DOD officials generally concurred in our findings and said they were devoting increased management attention to improving the effectiveness of the Industrial Preparedness Planning program. They said they had started a reevaluation of this program which will cover all aspects, including related policy and planning. They expect the reevaluation will be completed in 9 to 12 months.

The proposed reevaluation approach appears sound, and we believe that it should address the issue of aligning planning objectives with available resources.

We also suggested that DOD postpone funding measures, such as paying planned producers for planning and prestocking long-leadtime components, until the program is reevaluated. DOD told us reimbursement of contractors for processing planning schedules would be curtailed pending completion

of the reevaluation of the program and that programs to prestock long-leadtime items would be limited to components that had no adverse cost impact. DOD proposes to procure only selected long-leadtime items a year in advance. Since our prime concern was directed at prestocking where there is great potential for component obsolescence, we have no objection to DOD's plan to continue stocking long-leadtime items where there is no adverse cost impact.

CHAPTER 5

SCOPE OF REVIEW

In evaluating the completeness and reliability of the industrial preparedness planning, we reviewed data for land-based vehicles, aircraft, and related components and spare parts. Planning for the ammunition base was not reviewed because of the close attention this area has received from both the Army and Navy as well as our Office. (See app. II.) In addition, we did not attempt to determine the accuracy of forecasted mobilization requirements and the war scenarios they were based on.

Our work was done at the following military procuring activities.

--Army Tank Automotive Materiel Readiness Command,
Warren, Michigan.

--Aeronautical Systems Division, Air Force Systems
Command, Wright-Patterson AFB, Dayton, Ohio.

--Navy Aviation Supply Office, Philadelphia, Pennsyl-
vania.

--Warner Robins Air Logistics Center, Warner Robins,
Georgia.

--Naval Air Systems Command, Washington, D.C.

We examined industrial planning data and discussed preparedness planning with military preparedness planners to determine the program's effectiveness.

We also obtained industry's views on industrial preparedness planning and its recommendations for improvements. We contacted several companies who would undoubtedly play an important role in any future industrial mobilization effort. (See app. I.)

PLANNED PRODUCERS INTERVIEWED

Sperry Marine Systems, Division of Sperry Rand Corporation,
Charlottesville, Va.

Lockheed Georgia Co., Lockheed Aircraft Corporation,
Marietta, Ga.

Hamilton Standard, Division of United Technologies,
Windsor Locks, Conn.

RCA Corporation, Commercial Communication Systems Division,
Camden, N.J.

Chrysler Corporation, Defense Division,
Sterling Heights, Mich.

Bowen-McLaughlin-York Co., Division of Harsco Corp.,
Bair, Penn.

American Motors Corporation, General Products Division,
South Bend, Ind.

General Motors Corporation,
Detroit, Mich.

Teledyne Continental Motors, Inc.
Muskegon, Mich.

McDonnell Douglas Corporation,
St. Louis, Mo.

Bendix Corporation, Energy Controls Division,
South Bend, Ind.

REPORTS RELATING TO INDUSTRIAL PREPAREDNESS

<u>Number</u>	<u>Date</u>	<u>Title</u>
LCD-77-411	Jan. 24, 1977	Military Clothing and Textiles Required for War Reserves Can Be Reduced
LCD-76-407	Oct. 5, 1976	Management of Department of Defense Industrial Plant Equipment Can Be Improved
LCD-76-449	July 30, 1976	Programs for Procuring Conventional Ammunition and Modernizing and Expanding Ammunition Plants
PSAD-76-93	Apr. 2, 1976	Special Priorities Assistance Program: Its Shortfalls and Its Possibilities
LCD-76-405	Mar. 5, 1976	Defense Supply Agency Could Reduce War Reserve Requirements for Medical Items
PSAD-76-14	Feb. 27, 1976	Impact of Shortages of Processed Materials on Programs of Vital National Interest
LCD-75-441	Sept. 22, 1975	Army's Programs for Procuring Ammunition and Modernizing Ammunition Plants
PSAD-75-44	Feb. 12, 1975	Government Support of the Shipbuilding Industrial Base
B-140389	Sept. 24, 1974	Numerically Controlled Industrial Equipment: Progress and Problems
B-172707	July 15, 1974	Army's Program to Modernize Ammunition Plants
B-159896	Mar. 21, 1974	Costs of Maintaining Unutilized and Underutilized Industrial Capacity

APPENDIX II

APPENDIX II

B-172707

Oct. 12, 1973

Mobilization Planning for
Ammunition in the Depart-
ment of Defense



ASSISTANT SECRETARY OF DEFENSE
WASHINGTON, D.C. 20301

24 MAR 1977

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 reply to your letter of 10 January 1977 to the Secretary of Defense which forwarded your draft report entitled "Shortfalls in Planning with Private Industry for National Emergency Mobilization Production Requirements" dated January 1977 (OSD Case #4505) for our review and comment.

We generally concur with the findings of your draft report and have been devoting increased management attention to improving the effectiveness of our Industrial Preparedness Program.

During 1976 we conducted several Seminars under the sponsorship of the American Defense Preparedness Association (ADPA) to improve our communications with industry, promote a better understanding of our mutual concerns on maintaining a viable Defense Production Base and generate a constructive exchange of ideas. Additionally, the Defense Science Board conducted a study of this area in 1976 which highlighted some of the apparent deficiencies in the Defense Industrial Preparedness Program. We are currently acting on their recommendations.

As a result, the Deputy Secretary of Defense, by memorandum of 22 December 1976 (copy attached), directed that a DoD Steering Group be established to look at the "Industrial Base Responsiveness". This Steering Group has been established and is reviewing all aspects of our Industrial Preparedness Program including related policy and planning. The Steering Group should complete their effort in 9 to 12 months.

Specific comments are furnished regarding the statements made on Page i, Page iii and Page 17 of the report.

[See GAO note 1, p. 24.]

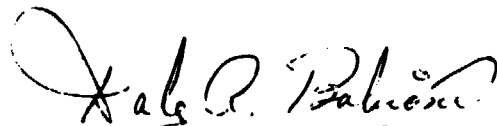
B. Page 111 and Page 17, Statement: GAO recommends that the Secretary of Defense postpone funding measures such as Government-funded planning with contractors and prestocking long leadtime components until a program reevaluation has been completed.

Comment:

(1) Government Funded Planning: Reimbursement of contractors for their Industrial Preparedness Planning effort is done only on a selective basis. This type of funding is used to obtain production data from prime and subcontractors to better determine the requirement for Industrial Preparedness Measures. Other reimbursement of contractors for processing the DD Forms 1519 will be curtailed pending completion of our review of the Industrial Preparedness Program.

(2) Prestocking Long Leadtime Components: Our planned initiative to prestock long leadtime components is designed to reduce leadtime of pacing items without adverse cost impact. We propose to procure only selected long leadtime items a year in advance of their requirement for current end item production. This will provide the ability to rapidly increase (surge) our production in an emergency; and serve as a hedge against material or energy shortages without incurring increased costs. When such investments are made they will be closely controlled.

Sincerely,



DALE R. BABIONE
Acting Assistant Secretary of Defense
(Installations and Logistics)

Att.

[See GAO note 2, below.]

- GAO notes:
1. The deleted comments relate to matters not directly pertinent to our findings.
 2. Attachments were classified and not included in this report.

DIVISION OFFICE



22 February 1977

United States General Accounting Office
Procurement & Systems Acquisition Division
Washington, D. C. 20548


Attention: Mr. R. W. Gutmann
Director

Dear Mr. Gutmann:

We have read with a great deal of interest the extract of your proposed report "Shortfalls in Planning with Private Industry for National Emergency Mobilization Production Requirements" as attached to your letter of 13 January 1977. We concur with the proposed report. Many of our people have been discussing the same problems for the past several years but to no avail. We have been only performing paper exercises to fill the files with the relatively rare exception of those funded studies. But even in the case of a funded study of a major mobilization aspect, continual monitoring and updating is essential as conditions change.

A fundamental deficiency is that we are attempting to "plan" only a segment of an otherwise free competitive industrial society. Commercial industrial capacity is not preplanned as such in the mobilization sense. Hence the conflict with attempting to preplan the defense aspect.

We encourage you in your effort as indicated in your above referenced report extract. Thank you.


W. L. DEWEY, Manager
Administration & Comptroller
CHRYSLER CORPORATION
Defense Group

CJS:ls



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CABLE SPERRYMARINCHVL

February 23, 1977

United States General Accounting Office
Procurement and Systems Acquisition Division
Washington, D. C. 20548

Attention: R. W. Gutmann
Director

Gentlemen:

Thank you for the opportunity to review your draft of material to be included in a report to the Congress of the United States entitled, "Shortfalls in Planning with Private Industry for National Emergency Mobilization Production Requirements", sent to us by your letter of January 13, 1977.

We basically agree with your conclusions and have only one comment. One of the criteria for mobilization planning is that the part or component requires a long lead time for production. We have seen, however, on the Form DD 1519 a required schedule of M+1, meaning that the Government desires the component one month after contract. Thus creditability with industry is lost when the DOD selects an item for mobilization that it takes eight or nine months to practice and states on the DD 1519 that the item is planned for delivery in one month.

Very truly yours,


W. C. Judge
Plant Manager

:fs

PRINCIPAL OFFICIALS RESPONSIBLE
FOR ADMINISTERING ACTIVITIES
DISCUSSED IN THIS REPORT

Tenure of office
From To

DEPARTMENT OF DEFENSE

SECRETARY OF DEFENSE:

Dr. Harold Brown	Feb. 1977	Present
Donald H. Rumsfeld	Nov. 1975	Jan. 1977
James R. Schlesinger	July 1973	Nov. 1975

ASSISTANT SECRETARY OF DEFENSE
(INSTALLATIONS AND LOGISTICS):

Dale R. Babione (acting)	Jan. 1977	Present
Frank A. Schrontz	Feb. 1976	Jan. 1977
John J. Bennett (acting)	Mar. 1975	Feb. 1976

DEPARTMENT OF THE AIR FORCE

SECRETARY OF THE AIR FORCE:

Thomas C. Reed	Jan. 1976	Present
James W. Plummer (acting)	Nov. 1975	Jan. 1976
Dr. John L. McLucas	June 1973	Nov. 1975

DEPARTMENT OF THE ARMY

SECRETARY OF THE ARMY:

Clifford L. Alexander, Jr.	Feb. 1977	Present
Martin R. Hoffmann	Aug. 1975	Jan. 1977
Howard H. Callaway	July 1973	Aug. 1975

DEPARTMENT OF THE NAVY

SECRETARY OF THE NAVY:

W. Graham Claytor, Jr.	Feb. 1977	Present
J. William Middendorf	Apr. 1974	Jan. 1977