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STATEMENT OF  
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BEFORE THE  
SUBCOMMITTEE ON DEFENSE  
APPROPRIATIONS COMMITTEE  
HOUSE OF REPRESENTATIVES  
ON  
NAVY'S MANAGEMENT OF DEFECTIVE  
GOVERNMENT MATERIAL FURNISHED  
TO DEFENSE CONTRACTORS



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Mr. Chairman and members of the Subcommittee:

We are pleased to be here today to discuss our work on the problems that the Navy is experiencing because of defective material it furnished to defense contractors.

The Navy provides billions of dollars of Government furnished materials (GFM) to private contractors for use in performing construction, overhaul, and repair contracts. These materials, which are either owned or acquired by various commands, include parts, components assemblies, raw and processed materials, and supplies. They are issued to contractors as part of contractual agreements, to be attached to or incorporated into such end products as ships and aircraft.

The Navy spends millions of dollars each year to repair or replace materials found to be defective after contractors receive them. The responsibility for managing defective materials is highly fragmented among the various Navy systems commands and their subordinate commands. The Navy, therefore, could not provide a total figure for defective GFM, even though a number of reports have been issued on the many problems associated with these materials.

Although several of the systems commands had established quality deficiency reporting systems for accumulating this data, the information generated by these systems has usually been of little help in (1) identifying the magnitude of the problems, (2) obtaining corrective actions, (3) helping to prevent future recurrences of the same problems, or (4) taking action against vendors habitually providing poor products.

With only limited audit work at eight contractors' locations, we identified about \$31.4 million that the Navy either has spent, obligated or estimates it will spend for repairing defective GFM.

The Navy's failure to identify the magnitude of defective GFM and their associated costs has precluded the necessary management oversight needed to correct the problems.

Historically, GFM have been cited as the reason for many contract problems. As early as 1972, GAO identified defective and late delivery of GFM as one of five basic factors causing the Navy increased contract costs. Also, in 1975, GAO reported that the need to repair defective GFM was interrupting shipbuilders' construction schedules and resulting in delays and claims against the Government.

The Naval Audit Service and others have also reported problems associated with defective GFM. For example:

--In June 1977, Naval Audit Service estimated that defective GFM had led to 36,000 maintenance actions annually at a cost of more than \$14 million. The report also noted that a number of Navy commands were not negotiating equitable price adjustments for these repairs.

--In May 1978, Naval Audit Service reported that inadequate receipt inspections by a prime contractor had resulted in escalating repair costs because defective GFM were installed in aircraft.

In 1978 DOD, recognizing the need for a quality information system, issued DOD Directive 4155.1. DOD components were to establish a quality assurance program as a component of the acquisition and support process, and to conduct audits to ensure that quality products and services were obtained.

This directive also established that contractors (1) are to be held responsible for the quality of goods and services they provided, (2) must establish quality control programs, and (3) are responsible for the quality of products and services provided by their subcontractors. DOD components were to establish inspections at the destination point whenever practical and were to ensure that contracts were not awarded to contractors known to provide unsatisfactory products or services.

The Navy is generally not holding vendors accountable for the repair or replacement of defective GFM. The Navy's usual solution is to have the item repaired by the receiving contractor or an on-site product's vendor representative. There was seldom any attempt to go back to the products' vendors to obtain a repair or a replacement or a price adjustment to compensate for the repair costs incurred. For example,

--For seven of the contractors we visited, the Navy paid or obligated over \$11 million for the repair of defective GFM over a 30-month period. This figure does not include payments to on-site product vendor representatives for repairs.

--For the other contractor, the Navy has already expended \$6.6 million for GFM repairs on two contracts for the fast frigate ships' combat systems and it estimates that it will spend an additional \$13.8 million on these two contracts and a third contract, before the contracts are completed. No actions have been taken against any of the vendors of the defective items. Instead, the Navy has simply paid the contractor to make corrections.

Navy officials told us they do not go back against the vendors because most of the GFM items purchased are inspected and accepted at the vendors' plants by Defense Contract Administration Service representatives. They said the Navy has no recourse against the vendors if the materials are found to be defective later on. They also said the Defense Acquisition Regulations permit solving the problem by paying the receiving contractor to make the repairs.

We did not evaluate source inspections. However, we did review four Navy quality deficiency reporting systems. The Navy systems identified high percentages of defects for which the cause of the deficiency was vendor quality control. These reports showed that many deficiencies resulted because the items were not made according to specifications, poor workmanship, or other quality control factors.

For example, one report listed numerous manufacturing problems with a missile launcher. The following is a selected list of the things that were wrong.

- Hydraulic pressure for magazine does not meet specifications.
- Latch unit for hoist bound up making hoist inoperable.
- Guide arm and train positioner leaking oil.
- Hydraulic lines chafing and vibrating.
- Magazine blow-out parts leaking anti-icing fluid.
- Train regulator dial face installed improperly.
- Train and elevator brakes operate incorrectly.
- Hand pump mounting bracket missing.

The Navy continues to award contracts to vendors with histories of providing unsatisfactory products. For example,

- In an analysis of 12 Navy contracting activities, the Navy Sea Systems Command identified the award of 675 of 929 contracts--73 percent--to vendors previously identified and reported as having a history of providing poor quality products. Thirty-one of the 54 vendors involved had been on quality deficiency lists for the previous 2 years.
- During a recent 3-month period, the Navy Supply Systems Command awarded 111 contracts to vendors for the same items for which they had a previous record of providing poor quality products.

Navy Materials Command officials told us they had been trying for 5 years to get the Navy's various systems commands to use the data produced by the quality deficiency reporting systems to at least flag problem vendors and require purchasing officers to review the records before placing any additional contracts. They have been unsuccessful in accomplishing these goals, even though Navy studies have indicated that many of the items in the supply system are defective.

In conclusion, the Navy needs to improve its management of defective GFM to ensure it (1) is meeting DOD requirements, and (2) is effectively managing the problems created by defective GFM.

The Navy has no central point of control or accountability over defective GFM. The QDR systems it has developed are not working and are not monitored to assure the consistency and interface needed to provide management visibility of the scope or magnitude of the Navy's defective GFM problems. Data developed which indicated vendors who habitually provided defective items was not being used effectively.

The Navy was not taking action to make vendors accountable for poor quality products provided as GFM. Generally, the Navy was simply paying the contractor who received the defective item to repair or replace it. This procedure is not only costing the Navy millions each year, it is relieving the producing vendors of their accountability for the quality of products provided.

Accordingly, we believe the Navy should:

- Bring the Navy QDR systems into agreement with Department of Defense Directive 4155.1.
- Develop a system for maintaining overall financial and logistical data which will provide the management visibility needed to identify the nature and magnitude of the problems with defective GFM.
- Ensure consistency and compatibility of the various Navy QDR systems with each other and with other Department of Defense components.
- Use the data developed by the QDR systems to hold vendors accountable either by having them take corrective action or by preventing future purchasing from them. If the vendor is a sole source, alternative sources should be developed if the sole source does not improve the quality of its products.