



UNITED STATES GENERAL ACCOUNTING OFFICE
WASHINGTON, D.C. 20548

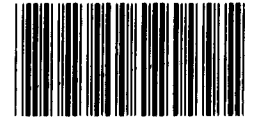
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PROCUREMENT, LOGISTICS,
AND READINESS DIVISION

B-208782

SEPTEMBER 17, 1982

The Honorable John F. Lehman
The Secretary of the Navy



119458

Dear Mr. Secretary:

Subject: Utilization of Navy Long Supply Aviation Assets --
Improved Coordination and Supervision Needed
(GAO/PLRD-82-121)

We have completed our followup review of the Navy's program for using long supply aviation assets in producing aircraft airframes, engines, and targets.

In our 1979 report, 1/ we identified weaknesses in the operation of this program and recommended specific actions for improvement. In commenting on that report, the Department of Defense expressed concern about the accumulation of long supply assets and agreed that such assets should be used as Government-furnished material. Defense agreed with our conclusions and recommendations and advised us that it would request the Navy to take corrective action in utilizing long supply assets.

Our followup review has disclosed that the Navy's program for utilizing long supply aviation assets in new production continues to fall short of realizing its optimum effectiveness. We found that coordination is inadequate between the Naval Air Systems Command and the Aviation Supply Office during the screening process and the verification of available items selected by the contractors. In addition, available assets were offered to the contractors too late for use in the applicable production year or they were not offered at all. Details of our review are discussed in the enclosure.

To improve the effectiveness of the Navy's program for utilizing long supply aviation assets in new production, we recommend that you direct the Naval Air Systems Command to:

1/"Increased Use of Available Aviation Assets In New Production Can Save Millions" (LCD-79-201, Mar. 5, 1979).

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- Increase supervision over the program for requesting and providing long supply aviation assets to production contractors.
- Request annual screening for long supply aviation assets in January rather than April. This action would permit available assets to be offered to production contractors early enough for suitable items to be used in the applicable production year.

We sent a draft of this report to you on July 20, 1982, but did not receive official comments within 30 days, as required by Public Law 96-226. However, during an August 4, 1982, meeting, Navy officials generally agreed with our conclusions and recommendations. They stated that much of the benefits accruing from the use of long supply assets would be offset by the expenditure of resources to provide them and that they would have to make an indepth study to determine if the program is cost effective. We believe our report demonstrates that effective implementation of the program and use of these long supply assets that may otherwise be eventually disposed of can result in significant savings.

As you know, section 236 of the Legislative Reorganization Act of 1970 requires the head of a Federal agency to submit a written statement of 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 Director, Office of Management and Budget; the Secretary of Defense; and the Chairmen of the appropriate congressional committees.

Sincerely yours,



Donald J. Horan
Director

Enclosure

UTILIZATION OF NAVY LONG SUPPLY
AVIATION ASSETS--IMPROVED COORDINATION
AND SUPERVISION NEEDED

BACKGROUND

The Naval Air Systems Command (NAVAIR) procures aircraft airframes, engines, and target drones and the Aviation Supply Office (ASO) manages repair parts and assemblies needed to support these items. NAVAIR Instruction 4340.3 requires that components and spare parts in long supply be provided to contractors as Government-furnished material (GFM) for use in new production, which is usually 18 months later. The instruction defines long supply assets in detail. But, simply stated, these are assets not needed to satisfy current requirements. The instruction also established the time frame and criteria for selecting such assets to be used as GFM. NAVAIR and ASO are both responsible for identifying and providing these assets to contractors.

The established sequence of events for identifying and providing these assets to contractors is as follows.

- In April of each year, NAVAIR requests ASO to screen its inventory for long supply assets meeting the following criteria: (1) ready for issue materiel, (2) sufficient quantity for all production items, (3) unit item value of \$250 or greater, and (4) no ground support material.
- ASO has about 3 months to screen its inventory and provide NAVAIR with listings of GFM candidates.
- NAVAIR provides the listings to production contractors, who, over the next 4 months, select the GFM candidates that can be used in the production programs for the next fiscal year procurement.
- Within the next 2 months, NAVAIR advises ASO of the contractors' selection, and ASO is to verify available quantities.
- ASO is to ship the assets to the contractors within the next 8 months.

OBJECTIVES, SCOPE, AND METHODOLOGY

Our objectives were to assess the Navy's efforts to improve the program for using long supply aviation assets. If progress has not been satisfactory, we were to identify the reasons, and demonstrate that substantial economies can be achieved by making better use of these assets.

We made our review from August 1981 through March 1982 at Headquarters, Naval Air Systems Command, Arlington, Virginia; the Navy Weapons Engineering Support Activity, Washington, D.C.; and the Navy Aviation Supply Office, Philadelphia, Pennsylvania. We examined current policies and procedures related to the use of long supply assets as GFM in new production; reviewed production schedules for airframes, engines, and target drones; and examined the adequacy of time frames for inventory screenings. We also reviewed ASO records to assess (1) the efficiency of inventory screening, (2) the selection of items for use as GFM, and (3) the effectiveness of providing assets accepted by the contractors. We made our review in accordance with GAO's current "Standards for Audit of Governmental Organizations, Programs, Activities, and Functions."

PRIOR REPORTS IDENTIFIED PROBLEMS

In February 1963 we reported that the Navy needed to identify and use its excess spare parts in the production of new aircraft. In our December 1969 followup report, we noted that the Navy's program required improved procedures for identifying long supply aviation assets. In response to the 1969 review, the Navy issued its current instructions.

In March 1979 we reported that \$74.3 million in long supply assets had been identified as available for use in the production of airframes during the 7 year period 1972-78. The Navy provided only \$1.2 million of long supply assets to production contractors. Also, the Navy did not screen for long supply assets applicable to aircraft engines, target drones, or parts for components procured by ASO. Screening for engine parts had not been performed since 1965, for target drones since 1971 and for reparable components since 1972.

We concluded that the economies of using long supply aviation assets were not being obtained because of (1) a lack of management interest, (2) ineffective implementation of and non-compliance with existing policies, and (3) a lack of visibility and feedback systems at top management levels of the Navy and DOD to monitor and measure the success of the Navy's program.

PROBLEMS CONTINUE TO EXIST

Our current review shows that the problems with screening and providing long supply assets have continued despite the Navy's agreement with our earlier conclusions and recommendations. NAVAIR and ASO actions as a result of the 1979 and 1981 screenings illustrate the problems.

Problems with screening and providing long supply assets in 1979

ASO identified \$8.1 million in long supply aviation assets during its 1979 screening. Of these, NAVAIR offered \$6.6 million

to aircraft production contractors. The contractors agreed to accept \$2.3 million of the offered assets for fiscal years 1981 and 1982 production programs. However, NAVAIR provided the contractors with parts amounting to only \$636,000.

On April 5, 1979, NAVAIR requested ASO to provide listings of long supply aviation assets not later than June 1979. These assets were to be offered to aircraft production contractors for fiscal years 1981 and 1982 production requirements. The request identified seven aircraft programmed for procurement, but it did not identify the specific engines and target drones. The specific engines were identified later, but the target drones were not.

On May 11, 1979, ASO advised NAVAIR that it received the request for engine parts on April 28, 1979, but not the request for target drones. ASO also noted that because of the late submission, listings of long supply assets for engines would be provided later than the date NAVAIR requested.

On June 29, 1979, ASO forwarded to NAVAIR listings of long supply assets (airframes) valued at over \$8 million. NAVAIR sent the listings to the contractors in August 1979. Navy officials could provide no evidence that listings for engines or target drones were ever produced during the 1979 screening.

Of the seven aircraft identified in NAVAIR's request, ASO identified long supply assets applicable to five. The following table shows the value of assets identified as GFM candidates, those offered to and accepted by contractors, and those provided to the contractors for use in producing airframes.

<u>Aircraft</u>	<u>Identified</u>	<u>Offered</u>	<u>Accepted</u>	<u>Provided</u>
	------(millions)-----			
P-3C	\$2.348	\$2.348	\$1.059	\$ -
CH-53D	1.171	-	-	-
E-2C	1.140	1.140	.612	-
EC-130Q	.347	-	-	-
F-14A	<u>3.129</u>	<u>3.129</u>	<u>.691</u>	<u>0.636</u>
Total	<u>\$8.135</u>	<u>\$6.617</u>	<u>\$2.362</u>	<u>\$0.636</u>

The significant differences in assets identified for potential use and offered to contractors and between assets accepted and provided are explained below by production aircraft.

P-3C

ASO's listings contained 126 items as candidates for fiscal years 1981 and 1982 production programs. NAVAIR forwarded the listings to the contractor in August 1979. In December 1979 the contractor advised NAVAIR that 25 of the 126 items met the re-

quirements for possible usage. The contractor also advised that the contracting officer should confirm the availability of the assets by April 1980 for 1981 production and by April 1981 for 1982 production. Further, the items were required at the contractor's facility by December 1980 for 1981 production and by December 1981 for 1982 production.

On February 4, 1980, NAVAIR advised ASO of the parts identified by the contractor for use in production. NAVAIR also requested that ASO confirm that the parts were available and that they be held in reserve until funds become available to purchase them. NAVAIR asked for confirmation from ASO by February 29, 1980, for 1981 production and by September 1980 for 1982 production. NAVAIR officials could provide no evidence of followup action to obtain a reply and told us that ASO had not replied to their February 4, 1980, letter. However, ASO had responded to NAVAIR. An ASO message, dated April 14, 1980, confirmed the availability of 80 of the 126 items, including 16 of the 25 items the contractor accepted. The 16 items, valued at \$286,000, were never provided to the contractor.

CH-53E

ASO advised NAVAIR that assets applicable to the CH-53E helicopter, as requested, were not yet on its records. But the listings, provided in June 1979, included parts valued at \$1.17 million for the CH-53D helicopter. ASO requested that the assets applicable to the CH-53D be reviewed by the Weapons Engineering Support Activity for possible use in producing CH-53E helicopters. Officials of the Support Activity told us that the listings had not been screened because of a lack of time and personnel. Navy officials could provide no evidence that the listings were forwarded to the production contractor for review.

E-2C

ASO did not offer any assets for this aircraft for fiscal year 1981 production. However, ASO provided listings containing over 500 long supply items valued at \$1.140 million for fiscal year 1982 production. In August 1979 NAVAIR sent the listings to the contractor and requested that it screen the listings against fiscal year 1982 production requirements. In January 1980 the contractor advised NAVAIR that 54 items valued at \$612,000 met the latest configuration and was of sufficient quantity to satisfy fiscal year 1982 requirements. Because of configuration changes to the aircraft, in April 1980 NAVAIR asked ASO to provide information on the year the parts were purchased and their contract numbers to determine if they met the latest aircraft specifications. A NAVAIR official told us that the April 1980 letter was the latest action on long supply items for this aircraft. However, ASO later provided us with a message dated April 28, 1980, in reply to NAVAIR's request. That message advised NAVAIR that assets were available for all requirements except for

six items that were no longer in a long supply position. NAVAIR could provide no evidence of any further actions having been taken on these long supply assets.

EC-130Q

ASO provided NAVAIR with a listing of long supply assets valued at \$347,000. The assets were to be offered to the production contractor for fiscal year 1982 production. NAVAIR officials stated that the assets had not been offered to the contractor, but they could not recall the reasons.

F-14A

ASO offered 92 items as candidates for the fiscal year 1982 production program. The contractor accepted 32 items. NAVAIR asked ASO to confirm the availability of the items selected by the contractor. ASO responded that 27 of the 32 items were available in the quantity required. The Aircraft Configuration Change Board at NAVAIR recommended that 20 of the available items be shipped to the contractor. However, only 17 items valued at approximately \$636,000 were shipped. Records were not available to determine the reason for the reduction.

Problems with screening and providing long supply assets in 1981

ASO offered NAVAIR 515 candidate items valued at \$8.7 million for use in producing aircraft airframes, engines, and target drones in fiscal year 1983. Of these, NAVAIR offered 369 items valued at \$5.4 million to the contractors. The contractors agreed to accept 61 items valued at \$1.3 million for their fiscal year 1983 production programs. None of the items had been shipped to the contractors at the completion of our fieldwork.

On April 13, 1981, NAVAIR asked ASO to provide listings of long supply items having potential use in the following 1983 aircraft production programs.

A-6E	F-14A	P-3C
EA-6B	F-18	E-2C
AV-8B	CH-53E	SH-2F

NAVAIR requested that the listings be provided not later than July 31, 1981. NAVAIR also requested that listings for engines and target drones be forwarded to the Weapons Engineering and Support Activity and the Pacific Missile Test Center, respectively. However, the request did not identify the specific engines or target drones involved in the production program.

On September 16, 1981, ASO provided NAVAIR with listings of long supply assets applicable only to aircraft airframes. However, the listings did not contain part numbers for the assets--

an item which NAVAIR and contractors consider essential to the timely identification of usable parts. On September 29, 1981, NAVAIR asked ASO to provide additional listings and to include part numbers. The revised listings were provided in October 1981 and sent to the contractors in October and November 1981.

ASO did not provide listings of long supply assets for engines and target drones when it provided the listing for airframes. ASO officials stated that NAVAIR's request did not specify the engines and target drones planned for production. Consequently, ASO did not screen its inventory for assets applicable to those items. We brought the problem to NAVAIR officials' attention and, in October 1981, they took action to secure listings of parts for these items. ASO provided the listings in December 1981.

The number and dollar value of assets eventually offered to NAVAIR and the contractors and the assets accepted by the contractors are shown in the following table.

Major items	Offered to NAVAIR		Offered to contractors		Contractor accepted	
	Number	Value	Number	Value	Number	Value
		(millions)		(millions)		(millions)
Airframes:						
A6E	96	\$1.145	96	\$1.145	-	\$ -
EA6B	77	.933	77	.933	-	-
E2C	78	.795	78	.795	-	-
F14	80	2.319	40	.999	40	.999
P3C	69	1.336	69	1.336	17	.120
CH-53E	1	.022	1	.022	1	.022
SH-2F	5	.054	5	.054	-	-
Engines	30	1.018	-	-	-	-
Targets	<u>89</u>	<u>1.076</u>	<u>3</u>	<u>.165</u>	<u>3</u>	<u>.165</u>
Total	<u>515</u>	<u>\$8.698</u>	<u>369</u>	<u>\$5.449</u>	<u>61</u>	<u>\$1.306</u>

The contractor rejected the items offered for the A6E, EA6B, and E2C aircraft, stating that the parts were offered too late for use in the fiscal year 1983 production. The contractor stated, however, that if parts for the A6E and EA6B could be delivered by December 1, 1982, and parts for the E2C by April 1, 1983, they would be inspected and tested for possible use in the fiscal year 1984 production.

Concerning parts for engine production, ASO's listing initially included 26 items valued at \$927,000. During our review, we identified four additional items valued at \$91,000. These were also offered to NAVAIR and are included in the table shown above. However, NAVAIR did not offer any of these items to the contractors for use in fiscal year 1983 production. A

NAVAIR official stated that because of the long manufacturing leadtime for engines--26 months or more--the contractors had all materiel already on order for 1983 production.

Concerning parts for target drones, ASO had identified 34 items valued at \$618,000 as candidates to be used in new production. However, only one item valued at \$89,000 was applicable to the fiscal year 1983 production program. The other 33 items were applicable to a target that the Navy had not programed for procurement in fiscal year 1983. Subsequent to ASO's screening for target drone assets, we reviewed the records of long supply assets and found an additional 45 items valued at \$458,000 that should have been offered for use in production. Initially, ASO had offered only those assets that met 100 percent of the production requirement for target drones. ASO officials stated that they did not know that contractors would accept partial quantities of assets applicable to target drones. The 45 items were offered to NAVAIR in February 1982. Two of the items valued at \$76,000 were suitable for use in fiscal year 1983 production.

OTHER OBSERVATIONS

During our earlier review, we had compared the Navy and Air Force procedures for using long supply assets in new production. In our March 1979 report, we recommended that the Navy adopt the more desirable features of the Air Force system for supplying these assets to production contractors.

As a result, in March 1979, Navy officials visited the Air Logistics Center at Warner Robins, Georgia, to get a firsthand look at the Air Force system. In a memorandum dated May 4, 1979, the officials stated that the visit revealed that Air Force procedures for furnishing long supply items to production contractors were more effective, as well as more selective, than the Navy procedures. The officials concluded that the Air Force system for identifying long supply assets should be seriously considered for adoption by NAVAIR and ASO. However, our current review disclosed no evidence that the Navy had implemented any of the procedures used by the Air Force to identify and select long supply assets for use as GFM.

The Navy has taken some actions to improve the program since our last review. But these actions have not been too effective. We found that ASO is using a revised computer program to screen for long supply assets. The program is not fully operational and it requires much of the screenings to be performed manually or the screenings are not done at all. ASO has also published internal documents that provide detail guidance to inventory managers regarding the screening of long supply assets. But, management review procedures have not been established to insure that inventory managers are screening against the correct criteria.

The Navy has also established at NAVAIR a monitor for the utilization of long supply aviation assets. The monitor is currently updating the NAVAIR instruction pertaining to long supply aviation assets, but has not implemented a system for insuring that the required screenings are being accomplished or that the results are being measured.

In our March 1979 report, we also recommended that the Navy perform a cost-benefit analysis of the program to determine whether the current criteria for long supply screening and selection provides the maximum return for the expanded effort. This has not been done. However, included in NAVAIR correspondence to the contractors for screening of long supply assets for fiscal year 1983 production is a request to accumulate cost data for both Government representatives and contractors in using long supply assets. The data is to be used in determining the cost effectiveness of the long supply program.

While the costs of the program have not yet been identified, some of the benefits have. For example, in the 1982 production of F14 aircraft, the Navy determined that over \$525,000 was avoided by providing the contractor with only 17 items. In another instance (1981 production of six EA-6B aircraft) the Navy determined that over \$175,700 was avoided by providing the contractor with parts in long supply.