



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

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PROCUREMENT, LOGISTICS,  
AND READINESS DIVISION

B-208261

MARCH 22, 1983

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The Honorable Howard H. Baker, Jr.  
United States Senate

RELEASED

The Honorable Jim Sasser  
United States Senate

Subject: Army Manufacture of the Mark 58 Smoke  
Marker (GAO/PLRD-83-58)

Your July 12, 1982, letter expressed concern regarding the Army's plan to start in-house production at the Crane Army Ammunition Activity of all Mark 58 Smoke Markers previously produced in part by the Kilgore Corporation of Toone, Tennessee. You stated that this appears to contradict the administration's policy of relying on the private sector for goods and services. You asked us to review this matter and provide you with a report.

SCOPE AND METHODOLOGY

We reviewed the procurement and production history of the Mark 58. We interviewed Army officials responsible for its procurement, production, and management. In addition, we obtained written responses from the Army Armament Material Readiness Command (ARRCOM) to questions on the policies and justification for the Army's in-house production of the Mark 58 and obtained a legal opinion from the ARRCOM Procurement Law Division. We also interviewed officials of the Crane Army Ammunition Activity and the Naval Weapons Support Center, Crane, Indiana; the Ships Parts Control Center, Mechanicsburg, Pennsylvania; and the Kilgore Corporation. We reviewed the policies and procedures in Office of Management and Budget (OMB) Circular A-76 and various laws. Our review was made primarily at ARRCOM, Rock Island, Illinois. Our review was made in accordance with generally accepted government audit standards.

BACKGROUND

The Crane Army Ammunition Activity is a Navy facility which was leased to the Army in 1977 when it was designated the Department of Defense single manager for conventional ammunition. The Mark 58, which is a Navy item, was produced at Crane from 1967 to 1971. No additional Mark 58s were made until a contract was awarded to Kilgore to produce Mark 58s for the 1977 program. The fiscal year 1978 Mark 58 program requirements were produced by both Kilgore and Crane. Navy officials said production of the 1978 requirements had been divided to insure continuous production

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of the Mark 58. Crane and Kilgore completed their production in April and July 1981, respectively. Crane produced 15,000 units and Kilgore produced 54,600 units.

Partially because of production problems, substantial changes have been made in the design and technical specifications of the Mark 58. The resulting model was first ordered in July 1979 and was to be produced at Crane at the Navy's request so the Navy could closely monitor production following the design changes. (In addition to being an Army ammunition activity, Crane is a Navy engineering and scientific center.) Kilgore became aware of the decision to initially produce the new model at Crane and generally accepted the decision because it felt (1) this arrangement would make it easier to "work out the bugs" in the new specifications and (2) the initial program quantities were small (11,960 in fiscal year 1979 and 7,690 in fiscal year 1980).

On advice from the Navy, the Army designated the Mark 58 as a mobilization planning item for the fiscal year 1982 planning period. The Army, as the single manager, was responsible for selecting a mobilization base producer. It selected Crane because Crane (1) was already producing the Mark 58, (2) was producing similar marker items for the Government, and (3) had the capacity to meet all Mark 58 mobilization requirements.

#### FINDINGS AND CONCLUSIONS

The Government's policy of relying on the private sector for goods and services is set out in OMB Circular A-76. However, the circular does not apply when it is contrary to law, as it is in this case.

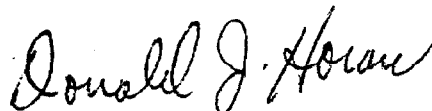
The Arsenal Statute states that the Army shall have needed supplies made in factories and arsenals owned by the United States, as long as the factories or arsenals can make those supplies economically. Although normally such a determination would have required a comparison of the cost of performance by Crane with the cost of performance by potential private sources, it was not necessary in this case because the item had been designated as a mobilization item and Crane had been selected by the Army as the mobilization base producer. The decision to make the smoke marker at Crane is authorized under 10 U.S.C. 2304 (a)(16) which gives the head of an agency the authority to negotiate a purchase if the agency head determines that it is in the interest of national defense to have a plant, mine, or other facility or a producer, manufacturer, or other supplier available for furnishing property or services in case of a national emergency. Also, 50 U.S.C. 451 states in part that it is the intent of the Congress to provide a comprehensive and continuous program for the future safety and for the defense of the United States by providing adequate measures whereby an essential nucleus

of Government-owned industrial plants and an industrial reserve of machine tools and other industrial manufacturing equipment may be available for immediate use by the Armed Forces in time of national emergency or in anticipation of one.

According to the Chief, Procurement Law Division, ARRCOM, the only way to insure the availability of such plants, tools, and equipment for immediate use is to workload them to insure that they are kept in an active status. Implicit in this mandate is the recognition that supplies may be obtained more economically from other sources but that interests of national defense outweigh these economical considerations. He said that as to the Mark 58 Smoke Marker itself, Crane had been designated a mobilization base producer for the item. After considering technical expertise and workload at Crane, the Army decided to obtain this item from Crane, and such a decision was clearly within the Army's authority. We agree.

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Copies of this report are being sent to the Secretaries of Defense, the Army, and the Navy. Unless you publicly announce its contents earlier, we plan no further distribution until 5 days from the date of this report. At that time we will send copies to the Director, Office of Management and Budget, and the Administrator, Office of Federal Procurement Policy. We will also make copies available to others upon request.



Donald J. Horan  
Director