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Vehicle Warranties: Greater Efficiency for Government by Using Commercial Practices. FSAD-78-53; B-139743. December 15, 1977. 10 pp. + 4 appendices (4 pp.).

Report to Secretary, Department of Defense; Administrator, General Services Administration; by Richard W. Gutmann, Director, Procurement and Systems Acquisition Div.

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The Government owns about 425,000 commercial cars and trucks and spends about \$664.5 million to operate and maintain this fleet. The General Services Administration (GSA) is responsible for purchasing most of the commercial vehicles used by civil agencies. In March 1975, GAO reported that improvements were needed in the Government's use of warranties and billback agreements. Findings/Conclusions: GSA and the Tank-Automotive Materiel Readiness Command (TARCOM) have taken action on some recommendations contained in the 1975 report. TARCOM adopted a new standards warranty provision to be included in all its commercial vehicle contracts but failed to disseminate this information to user activities. As a result, none of the activities which were visited were aware of the full extent of the improved warranty coverage for commercial vehicles or the procedures to be followed when billback agreements could have been used. GSA has not included billback agreements in any contracts except those for Postal Service vehicles. GSA agreed to consider including billbacks in future contracts for commercial vehicles upon learning that two of the Government's largest suppliers had stated that they would accept billback agreements. Additional savings are possible if the Government simplifies warranty procedures so they more closely conform to commercial practices. One vehicle manufacturer developed a limited warranty registration card for use by Government activities receiving new vehicles. A simplification of this procedure could provide a method for maintaining required information to vehicle users on a Government-wide basis. Recommendations: The Secretary of Defense and the Administrator of GSA should develop an effective communication system that will provide complete, accurate, and timely warranty information to user activities and publicize the advantages of billback agreements. (SU)



*UNITED STATES
GENERAL ACCOUNTING OFFICE*

**Vehicle Warranties: Greater
Efficiency For Government
By Using Commercial Practices**

GAO reviewed vehicle warranty provisions now provided to the Government and the warranty information used by field activities to determine what repairs were covered.

Although agencies have taken action on some of GAO's earlier recommendations, further improvements could be made, particularly in providing accurate and timely warranty information to field activities.



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

PROCUREMENT AND SYSTEMS
ACQUISITION DIVISION

B-139743

The Secretary of Defense and the
Administrator of General Services

This report is the result of our followup work on an earlier report concerning the Government's use of commercial-type vehicle warranties. The significant matters are summarized in the digest which is bound in the report.

Copies of the report are being sent to the Acting Director, Office of Management and Budget; the Office of Federal Procurement Policy; and the Secretaries of the Army, Navy, and Air Force.

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

R. W. Gutmann
Director

D I G E S T

The Government owns about 425,000 commercial cars and trucks and spends about \$664.5 million to operate and maintain this fleet. Two years have passed since GAO recommended improvements in the use of vehicle warranties. Generally, the Army and General Services Administration agreed with the recommendations and said appropriate action was or would be taken. GAO now finds that:

- The Army and General Services Administration did obtain warranty coverage equal to that offered the general public. (See p. 3.)
- The Army included a standard billback agreement in its commercial vehicle contracts allowing the Government to make warranted repairs and obtain reimbursement from the manufacturer when it is impractical to return vehicles to an authorized dealer. (See p. 3.)
- General Services did not include billbacks in its contracts because of concern that vehicle manufacturers would not bid on Government contracts if such agreements were included.

On learning from GAO that two of the Government's largest suppliers had stated they would accept billback agreements, General Services agreed to consider including billbacks in future Government contracts for commercial vehicles. (See p. 4.)

While the above actions will provide the Government with the necessary contractual agreements, Government agencies GAO visited were not fully apprised of these actions.

Government activities have physical custody of the vehicles and are responsible for their

operation and maintenance. Thus, effective communications between users and headquarters is essential if maximum warranty utilization is to be achieved.

As an indication of the potentially significant savings available through the use of warranties, in its 1975 report, GAO observed that the U.S. Postal Service had estimated savings of \$1.5 million to \$2 million annually by using billback agreements. An Air Force study also showed successful results in having manufacturers replace or furnish parts valued at about \$125,000 under warranty.

In contrast, GAO also identified instances where the Government, rather than the manufacturer, absorbed the cost of repairs. Examples included: \$75,000 for truck repairs because the warranty terms were not the most favorable; \$40,000 because it was impractical to return the vehicles to a dealer; and \$1,700 because of a lack of information.

Additional savings are possible if the Government simplifies warranty procedures so they more closely conform to commercial practices. For example, one vehicle manufacturer has developed a limited warranty registration card (see app. III) for use by Government activities receiving new vehicles. The Government user fills out the card--vehicle identification number, contract number, name and address of the agency, and inservice date. A copy of the completed card is sent to the manufacturer to establish the warranty starting date. The original card is retained with the vehicle and presented to an authorized dealer when warranty work is done.

This procedure could provide a basis for a simplified, but effective, method of providing required information to vehicle users on a Government-wide basis. The reverse side of the limited warranty registration card could also show, in summary form, the warranty coverage on each Government (see app. IV) vehicle. Users, therefore, would receive required information directly from the vehicle manufacturers. Responsibility for warranty

utilization, including billback agreements, would be at the appropriate management level, i.e., where the vehicles are operated and maintained.

Utilization of a simplified system could also result in such other benefits as:

- Elimination, or a reduction in number, of many warranty instructions prepared by the various agency headquarters and disseminated to users. Warranty control points used by the military services could also be eliminated.
- Uniformity of warranty administration. The civilian agencies and the military services would follow the same system.

GAO recommends that the Secretary of Defense and the Administrator of General Services should:

- Develop an effective communication system that will provide complete, accurate, and timely warranty information to using activities. The above system could be considered for use on an experimental basis.
- Publicize the advantages of billback agreements.

C o n t e n t s

		<u>Page</u>
DIGEST		i
CHAPTER		
1	INTRODUCTION	1
	Scope of review	2
2	FURTHER IMPROVEMENTS IN THE USE OF WARRANTIES AND BILLBACK AGREEMENTS COULD REDUCE INITIAL OPERATING COSTS FOR VEHICLES	3
	U.S. Army Tank-Automotive Materiel Readiness Command	3
	General Services Administration	4
3	USERS MUST BE KEPT INFORMED IF THEY ARE TO TAKE ADVANTAGE OF WARRANTIES	5
	Warranty starting dates	5
	General Services Administration	5
	National Park Service and Forest Service	5
	GSA sticker affixed to Govern- ment vehicles	6
	TARCOM and other military services	7
	Warranty coverage	7
4	CONCLUSIONS AND RECOMMENDATIONS	9
	Conclusions	9
	Recommendations	10
APPENDIX		
I	Number of commercial vehicles in the Government as of June 30, 1976	11
II	List of activities visited	12
III	Limited warranty registration card	13
IV	Sample warranty in summary form	14

ABBREVIATIONS

DOD	Department of Defense
GAO	General Accounting Office
GSA	General Services Administration
TARCOM	Tank-Automotive Materiel Readiness Command

CHAPTER 1

INTRODUCTION

During fiscal year 1976, the Government owned and operated about 425,000 commercial-type cars and trucks. (See app. I.) The annual cost to operate and maintain this vehicle fleet exceeded \$664.5 million.

The General Services Administration (GSA) is responsible for purchasing most of the commercial vehicles used by civil agencies, such as the Departments of the Interior, Agriculture, Labor, and the U.S. Postal Service. Generally, GSA buys commercial vehicles weighing less than 10,000 pounds that are used by the Department of Defense (DOD). Vehicles weighing 10,000 pounds or more are purchased by the Army's Tank-Automotive Materiel Readiness Command (TARCOM) for all DOD activities, e.g., the Air Force and Navy.

Government contracts for commercial vehicles normally include warranties that guarantee certain defects in material and/or workmanship will be corrected by the manufacturer for a specified period. The warranty period usually begins when the vehicle is delivered and continues in effect for a stipulated time period or mileage amount, e.g., 12 months or 12,000 miles, whichever comes first.

Billback agreements may be established as part of the vehicle warranty clause in the contract. These agreements allow the Government to make warranted repairs and obtain reimbursement from the manufacturer when it is impractical to return vehicles to an authorized dealer.

We reported in March 1975 that improvements were needed in the Government's use of warranties and billback agreements. (Savings Expected from Better Use of Truck Warranties by Government Agencies, PSAD-75-64, Mar. 20, 1975.) We recommended in the 1975 report that the Administrator of General Services and the Secretary of Defense should require procurement offices or warranty control points to:

- Obtain warranties for diesel-powered and heavy-duty trucks comparable to those provided to the public. Previous coverage on Government vehicles had not been as good.
- Establish billback agreements to recover the costs of warrantable repairs when it is not practicable to return vehicles to a dealer.

--Provide complete, current, and accurate information to vehicle users that explains the terms and conditions of warranties and use of billback agreements.

--Evaluate periodically the effectiveness of the warranty enforcement systems.

DOD and GSA agreed with our recommendations and stated corrective action was being taken. We conducted this followup audit to determine if further improvement could be made in the Government's warranty administration.

SCOPE OF REVIEW

We reviewed the warranty provisions now provided to the Government and the warranty information used by field activities to determine what repairs were covered. We examined available maintenance records for commercial vehicles used by the various field activities and discussed the audit coverage afforded warranty utilization with the agencies' internal audit staffs and inspection terms.

We visited 10 activities (see app. II) and observed vehicle operations and discussed warranty utilization with appropriate personnel.

CHAPTER 2

FURTHER IMPROVEMENTS IN THE USE

OF WARRANTIES AND BILLBACK AGREEMENTS

COULD REDUCE INITIAL OPERATING COSTS FOR VEHICLES

TARCOM started including improved warranty coverage and a standard billback agreement in its contracts for commercial vehicles shortly after our earlier report was issued in March 1975. GSA had incorporated improved warranty terms in the specifications for heavy-, medium-, and light-duty trucks by June 1975. GSA had not included billback agreements in any contracts unless such agreements were specifically requested by the user agency. A description of the changes made by the procurement offices and the effect of these changes on user activities are presented below.

U.S. ARMY TANK-AUTOMOTIVE MATERIEL READINESS COMMAND

In April 1975, TARCOM adopted a new standard warranty provision to be included in all its commercial vehicle contracts. The provision was accepted by the various vehicle manufacturers and included

- warranty terms equal to those offered the general public;
- an extension of the basic warranty period from 12 to 15 months; and
- a billback agreement to allow the Government, with prior permission, to make warranted repairs and obtain reimbursement from the manufacturer when it is impractical to return vehicles to an authorized dealer.

These actions are consistent with the recommendations included in our earlier report and should provide military activities with an opportunity to reduce the initial operating costs of commercial vehicles. TARCOM, however, failed to disseminate this information to user activities. As a result, none of the activities we visited were aware of the full extent of the improved warranty coverage for commercial vehicles or the procedures to be followed when billback agreements could have been used. We found instances where

- dealers gave preference to commercial customers, thereby delaying repairs to Government vehicles;

--dealer facilities were designed for servicing light-duty vehicles, therefore, larger Government vehicles could not be serviced; or

--dealers were located great distances from the Government vehicles' operating base.

The use of billback agreements would have enabled the users to repair the vehicles themselves or have the vehicles repaired by other than the authorized dealers. Thus, the vehicles would have been promptly returned to service and reimbursement of the repair costs would have been made by the manufacturers. The users, however, did not know of the billback agreements or how to use them.

GENERAL SERVICES ADMINISTRATION

GSA began incorporating better warranty terms in the specifications used for vehicle procurements while we were performing our earlier review. The specifications for heavy-duty trucks were completed by October 1974. The remaining specifications covering medium- and light-duty trucks had been revised by June 1975.

GSA has not included billback agreements in any contracts except those for Postal Service vehicles. GSA officials did not believe that vehicle manufacturers would bid on other Government contracts if a billback agreement similar to the one used by the Postal Service was a condition of the contract. Vehicle procurements for agencies other than the Postal Service are relatively small. We discussed this matter with two of the largest manufacturers of Government commercial vehicles. The manufacturers stated they would accept a GSA contractual billback agreement similar to the one obtained by TARCUM. TARCUM's agreement differs from the one used by the Postal Service in that the vehicle users are required to obtain permission from the manufacturer prior to having warranty repairs made by other than an authorized dealer.

During our previous review, we found billback agreements were most successful when they were contractual, as in the case of the Postal Service. At that time, Postal Service officials estimated \$1.5 million to \$2 million had been recovered annually through billback agreements. We discussed including a billback agreement in future vehicle contracts with GSA officials, and they agreed to consider this possibility.

CHAPTER 3

USERS MUST BE KEPT INFORMED IF

THEY ARE TO TAKE ADVANTAGE OF WARRANTIES

In 1975, we reported that using activities needed complete, accurate, and timely information on

- determining the exact date warranties begin;
- using billback agreements when it is more advantageous to have vehicle repairs done by someone other than the authorized dealer; and
- identifying repairs that are covered by warranties, including separate extended coverage on components such as engines, power trains, or transmissions.

WARRANTY STARTING DATES

GSA and TARCOM officials stated the correct warranty starting date for vehicles shipped directly to users is the day the vehicle is received and accepted by the activity, i.e., the date shown on the receiving document. Warranty instructions issued to using activities, by certain agencies, however, have permitted varying interpretations of the correct warranty starting date.

General Services Administration

GSA added a new section to its "New Vehicle Guide" dated November 1974, explaining the significance of the warranty starting date and how it should be determined. GSA also revised its "Instructions to Consignee Receiving New Motor Vehicles Purchased by General Services Administration," GSA Form 6317, by adding a paragraph explaining when the warranty period begins.

In the revised guide, GSA also advised vehicle users that the date shown on the GSA decal or metal data plate installed in the vehicle (see picture on following page) is not a reliable basis for establishing the warranty starting date. The date shown can vary from the actual delivery date by as much as 3 months.

National Park Service and Forest Service

At the activities of these agencies, we found people using a different method to establish warranty starting dates.

GSA STICKER AFFIXED TO
GOVERNMENT VEHICLES

GSA PURCHASED VEHICLE		
RECEIVING AGENCY		
CONTRACT NO. GS-OOS-		FOB
PURCHASE ORDER NO.		
MFG. SERIAL NO.		
DATE OF DELIVERY	MONTH	YEAR
WARRANTY	MONTHS	MILES
INSPECTED	DATE	
NOTE TO CONTRACTOR		
<p>Insert all data above and apply this label to the right or left front door lock face or door post after final inspection is made. Remove all labels and marks from windows and windshield except the labels cautioning against drained oil in transmission, crank case and rear axle.</p>		
GSA FORM 1398 (REV. 4-74)		

Instead of relying on instructions, the activities were using the manufacturers' literature that accompanies new vehicles to determine the warranty period. We did not find any errors in the warranty starting dates recorded by these activities.

TARCOM and other military services

TARCOM correctly identified the warranty starting date as the date of acceptance as shown on the "Material Inspection and Receiving Report," DD Form 250. However, none of the warranty enforcement instructions issued by the individual services directed vehicle users to the DD 250 as the source for the warranty starting date. There were numerous instances where incorrect warranty starting dates were established for vehicles located at the military installations visited. Some of these errors were not significant. However, where the instructions specifically directed or permitted maintenance personnel to use the delivery date shown on the vehicle data plate as the warranty starting date, the differences were significant. For example, at one activity, the warranty starting dates recorded on six vehicles were 3 or 4 month prior to the dates the vehicles were received at the activity.

WARRANTY COVERAGE

The Army's TARCOM has taken several actions--worldwide letters, articles in magazines, and new technical bulletins--to make maintenance personnel more warranty conscious. GSA has revised its warranty booklet and plans to reissue it in November 1977.

The above actions should prove beneficial; however, there is still a need to explain and identify more fully the improved warranty coverage on recently delivered vehicles and/or their components. For example:

- The warranty information affixed to GSA or Army purchased vehicles does not cite complete warranty terms. In many instances, the warranty coverage is much greater on specific components than the warranty coverage described on the decal affixed to the vehicle by GSA or the Army.

In our 1975 report, we cited instances where the coverage on components, such as diesel engines, was much greater than the coverage on the vehicle. Using activities, however, had not been advised of this difference and were, therefore, unaware of the greater warranty coverage.

Some of these instances were caused by individual agencies failing to insure that the revised warranty information

provided by GSA and TARCOM was forwarded to their using activities. TARCOM and GSA are responsible for providing guidance to the headquarters of individual agencies. The agency headquarters, however, are responsible for assuring this guidance is received and understood by their activities.

CHAPTER 4

CONCLUSIONS AND RECOMMENDATIONS

CONCLUSIONS

GSA and TARCOM have taken action on some of the recommendations contained in our earlier report. These actions should improve the Government's use of warranties. We believe further improvements could be made, particularly in the area of providing accurate and timely information to users.

We noted an information system used by one vehicle manufacturer that the Government may wish to consider as an alternative to its current policy on warranty administration. The manufacturer, one of the largest suppliers of Government vehicles, has developed a Limited Warranty Registration Card (see app. III) for use by Government activities receiving new vehicles. The Government user fills out the card--vehicle identification number, contract number, name and address of the agency, and inservice date. A copy of the completed card is sent to the manufacturer to establish the warranty starting date. The original card is retained with the vehicle and presented to an authorized dealer when warranty work is done.

We believe this procedure could provide a basis for a simplified, but effective, method of providing required information to vehicle users on a Government-wide basis. The Limited Warranty Registration Card could also show, in summary form, the warranty coverage on the Government (see app. IV) vehicle. Users, therefore, would receive the required information--warranty starting date and general warranty terms--directly from the vehicle manufacturers. Responsibility for warranty utilization, including billback agreements, would be placed at the appropriate level where the vehicles are operated and maintained.

Other advantages to be gained are:

- Elimination, or reduction in number, of many warranty instructions prepared by the various agency headquarters and disseminated to users. Warranty control points used by the military services could also be eliminated.
- Uniformity of warranty administration. The civilian agencies and the military services could follow the same system.

--Simplification of current warranty policies. The system would be very similar to that followed by private business and the general public. Appropriate local officials would be responsible (as their counterparts in private businesses are) for effective warranty utilization.

--Confusion over warranty starting dates would be eliminated. When the vehicle was actually put into service, the card would be completed and the correct date would be established. Delays caused by transportation or limited stopovers at Government depots would not reduce warranty coverage.

The disadvantage of this information system is:

--The Government will be relying on the manufacturers to insure that the appropriate information is in each vehicle. However, the Government already requires manufacturers to perform inspection and servicing of vehicles before shipment; therefore, adding another item to the checklist to assure the literature is with the vehicle does not appear to be a significant burden.

RECOMMENDATIONS

We recommend that the Secretary of Defense and the Administrator of General Services:

--Develop an effective communication system that will provide complete, accurate, and timely warranty information to user activities. The system, described above, could be considered on an experimental basis.

--Publicize the advantages of billback agreements.

NUMBER OF COMMERCIAL VEHICLESIN THE GOVERNMENT AS OFJUNE 30, 1976

<u>Agency</u>	<u>Number of vehicles</u>	<u>Percent of total</u>
Department of Defense	145,636	34.2
U.S. Postal Service	121,420	28.6
General Services Administration	78,500	18.4
Department of Agriculture	28,799	6.8
Department of the Interior	11,772	2.8
Other	<u>39,099</u>	<u>9.2</u>
Total	<u>425,226</u>	<u>100.0</u>

Type

Sedans	88,113
Station wagons	11,723
Ambulances	3,309
Buses	10,663
Trucks	<u>311,418</u>
Total	<u>425,226</u>

LIST OF ACTIVITIES VISITEDDepartment of Defense

Army:

Fort Dix, New Jersey
Fort Meade, Maryland

Air Force:

Warner Robins Air Force Base, Georgia
McGuire Air Force Base, New Jersey

Navy:

Naval Construction Battalion Center, California

Postal Service

Vehicle Maintenance Facility, Philadelphia, Pennsylvania
Vehicle Maintenance Facility, Atlanta, Georgia

General Services Administration

Interagency Motor Pool, Vancouver, Washington

Department of Agriculture

Forest Service:

Jefferson National Forest, Roanoke, Virginia

Department of the Interior

National Park Service:

Gateway National Recreation Area, Brooklyn, New York

**CORPORATION'S LIMITED WARRANTY REGISTRATION CARD
FOR
U.S. GOVERNMENT VEHICLES**

USE THIS FORM FOR ESTABLISHING THE CORRECT IN-SERVICE (WARRANTY START) DATE.

**A DESCRIPTION OF THE CORPORATION LIMITED WARRANTY IS INCLUDED WITH EACH VEHICLE —
UNLESS OTHERWISE SPECIFIED.**

**COMPLETE FORM ACCURATELY AND LEGIBLY WHEN VEHICLE IS ORIGINALLY PLACED IN SERVICE. MAIL THE
NO. 2 COPY AS ADDRESSED. WHEN REQUESTING SERVICE FROM AN AUTHORIZED CORPORATION
DEALER, THE NO. 1 COPY IS TO BE PRESENTED FOR VERIFICATION OF IN-SERVICE DATE REGISTRATION.**

VEHICLE IDENTIFICATION NUMBER (V.I.N.)										IN-SERVICE DATE			MILEAGE	
										<small>(Month)</small>	<small>(Day)</small>	<small>(Year)</small>	<small>(Exclude 10ths)</small>	
CONTRACT NUMBER			NAME AND ADDRESS OF GOVERNMENT AGENCY _____ STREET ADDRESS _____ CITY, STATE, ZIP _____										USE ONLY	
ITEM NO.														
U.S. ARMY REGISTRATION NO.														

DA-136-6649 (12/78)

SAMPLE WARRANTY IN SUMMARY FORM

WARRANTY — The Contractor hereby guarantees the vehicle and parts thereof against defective material and workmanship for a period of one year from date of acceptance or 12,000 miles road travel, whichever may occur first. On vehicles procured F.O.B. Destination and delivered by driveaway method to the Government, the 12,000 mile warranty limitation will be in addition to the mileage accumulated by such driveaway method. On vehicles used within the 50 states of the United States and the District of Columbia, the guarantee shall include the furnishing without cost to the Government, F.O.B. Manufacturer's nearest dealer or branch or to the original destination if desired by the Government, of new parts or assemblies to replace any that prove to be defective within the warranty period. In addition, when the Government elects to have the work performed by the Contractor, the cost of the labor involved in the replacement of the defective parts or assemblies at the Contractor's own branch or dealer facility shall be borne by the Contractor. On vehicles used outside the 50 states of the United States and the District of Columbia, the guarantee shall include the furnishing of new parts or assemblies to replace any returns to the Contractor by the Government which prove to be defective. The replacement parts or assemblies shall be delivered by the Contractor to the port of embarkation in the United States designated by the Government. The Contractor shall not be required to bear the cost of the labor involved in correcting defects in vehicles used outside the 50 states of the United States and the District of Columbia.

IMPLEMENTATION OF WARRANTY — Any authorized Dealer, as applicable, within the 50 states of the United States and the District of Columbia. On vehicles transferred outside of the 50 states of the United States or the District of Columbia, claims can be handled as follows: (1) Defective parts removed should be returned to: _____ properly tagged with all pertinent information pertaining to the vehicles, reason for replacement, etc. (2) Upon receipt of the defective part, if the inspection indicates factory responsibility, a new like part will be supplied "no charge" transportation prepaid to any Government Agency within the 50 states of the United States or the District of Columbia. (3) This warranty does not provide labor outside the 50 states of the United States or the District of Columbia.