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AUDIT REPORT

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ARMY PRE-POSITIONED WAR RESERVE MATERIEL (U)

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**OFFICE OF THE INSPECTOR GENERAL
DEPARTMENT OF DEFENSE**

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REPORT ON THE AUDIT OF
ARMY PRE-POSITIONED WAR RESERVE MATERIEL (U)

PART I - INTRODUCTION

Background

(U) War reserves are stocks of materiel amassed in peacetime to meet the increase in military requirements at the outbreak of war. This materiel consists of stocks categorized as Pre-positioned War Reserve Materiel (PWRM) and Other War Reserve Materiel (OWRM). PWRM is that portion of the war reserve requirement that approved defense plans dictate be reserved and positioned, prior to hostilities, at or near the point of planned use or issue to the user. This is done to reduce reaction time and to assure timely support of a specific force or project until replenishment can be effected. OWRM is the total war reserve requirement less the PWRM. The Army stocked all OWRM in CONUS depots and stocked PWRM both in CONUS and overseas.

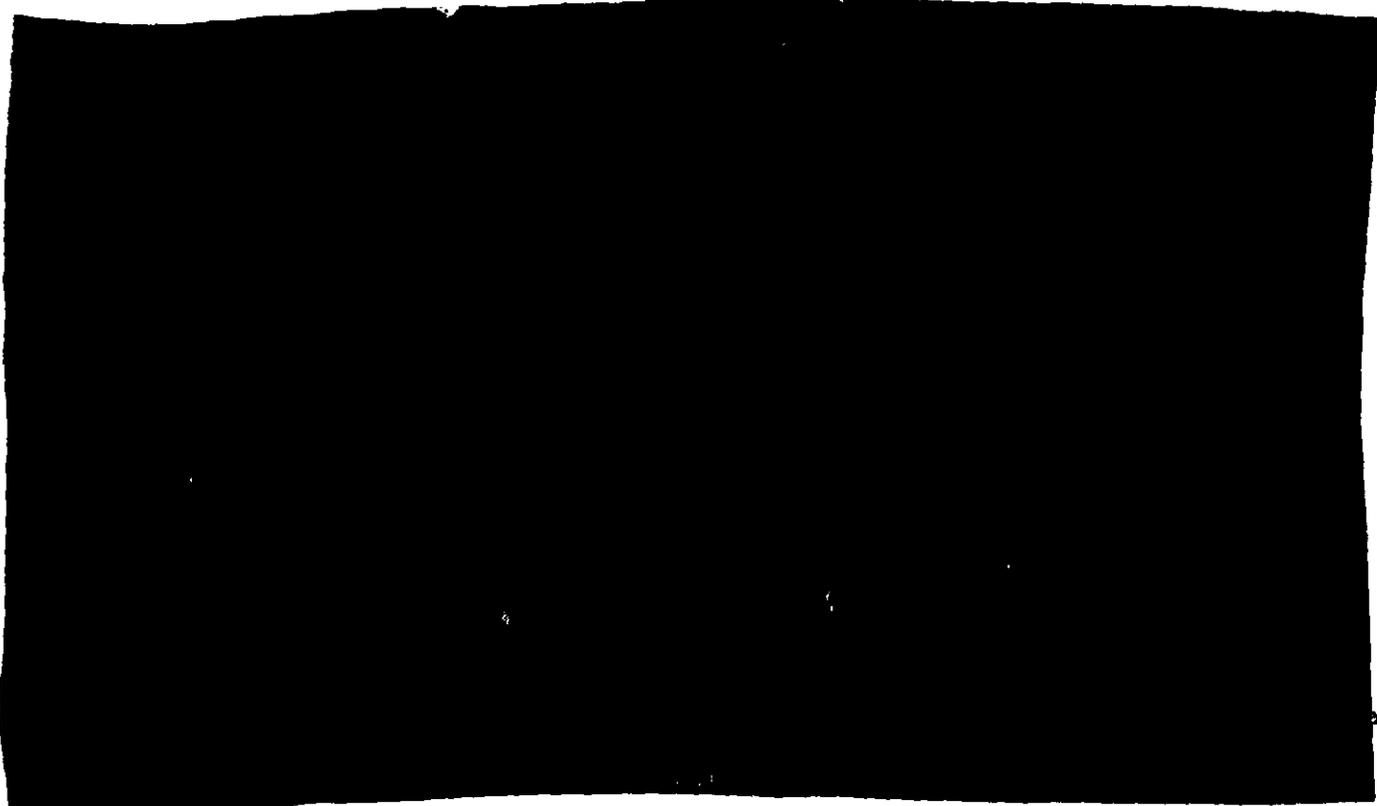
(U) We reviewed 167 Class II (clothing, including chemical protective gear) and Class IX (spare parts) items of supply that had PWRM shortages for the European Theater of about \$370 million as of February 1983. As of September 30, 1982, USAREUR's total PWRM

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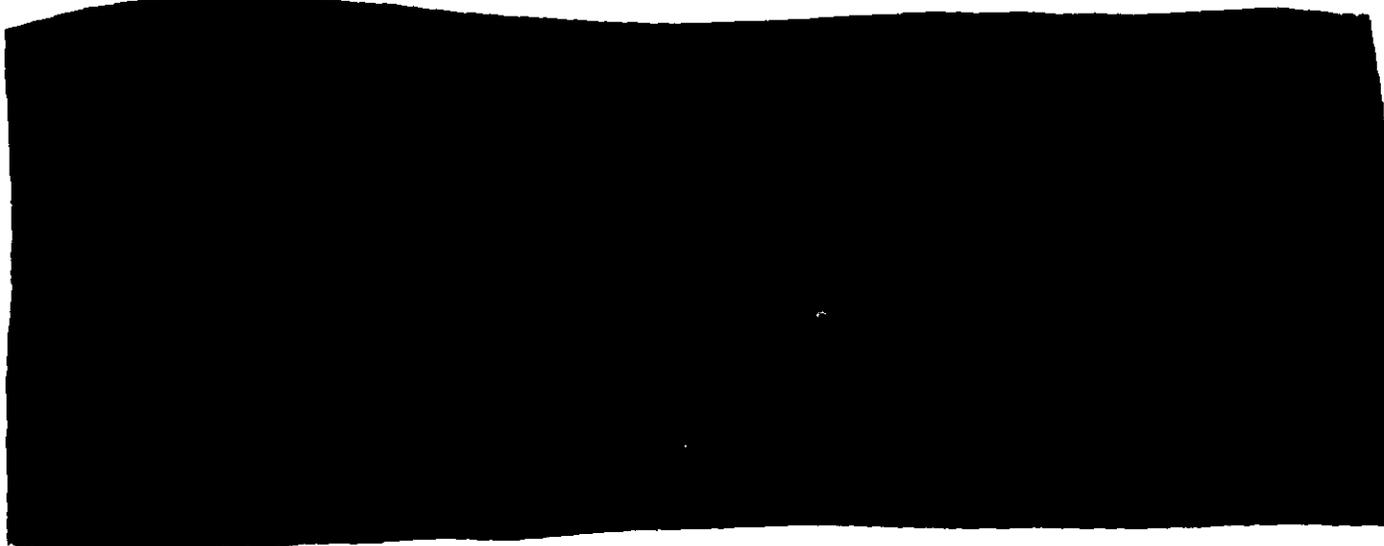
PART II - FINDING AND RECOMMENDATIONS

Using Materiel in CONUS to Fill Pre-Positioned War Reserve Shortages (U)

FINDING



DISCUSSION OF DETAILS



Background

On June 9, 1982, NAVAIR negotiated contract N00019-81-C-0113 for 18 SH-2F helicopters at a cost of about \$121 million, which was a sole-source, firm-fixed-price contract with Kaman. Thirty-six speed decenter gearboxes are included in this contract at a cost of almost \$4.5 million, not including inspection and testing costs. This contract has been definitized, and all 36 gearboxes have been delivered to Kaman.

Also, contract N00019-82-C-0176 between NAVAIR and Kaman for an additional 18 SH-2F helicopters (including 36 gearboxes) is currently being negotiated, and should be definitized by December 31, 1983. Based on current estimates, the Government's cost for the 36 gearboxes on this contract will be about \$4.8 million, not including inspection and testing costs. The \$4.8 million cost is a prenegotiation figure which may change during negotiations with Kaman. The contract has not been definitized and production has already started but no gearbox deliveries have been made to Kaman.

In addition, long lead item production on contract N00019-83-C-0044 for 12 gearboxes has also been started. No pricing proposals have been submitted and no gearboxes have been manufactured. Based on current pricing, we estimate the Government's cost for these 12 gearboxes to be about \$1.6 million.

Further, the FY 1984 budget shows that 12 additional SH-2F helicopters are to be procured by FY 1985. This equates to an additional 24 gearboxes for the 12 helicopters.

Discussion

We found that the gearboxes were manufactured by [REDACTED]

[REDACTED] then delivered to the prime contractor (Kaman) for installation in the helicopters. Although only inspection and testing is performed [REDACTED]

[REDACTED] full overhead and profit rates [REDACTED]

[REDACTED] While application of these overhead and profit rates is consistent with the contractors' DCAA approved accounting practices, substantial savings are available to the Government if these items are bought directly from the manufacturer and furnished to the prime contractor as GFE. The following schedule shows contractor costs, overhead and profit included in the Government's cost for the gearboxes.

Proprietary Rights. According to the NAVAIR program manager, the reason for not breaking out the gearboxes for direct purchase [redacted] proprietary rights on special tooling for the gearboxes. [redacted]

[redacted] competitively on an Air Force contract (F41608-82-R-2618) for the gearboxes in mid-1982. Our review of available documentation indicated that the special tooling in question had been paid for by the Government [redacted] no objection to its use on a noninterference [redacted]. We also noted that contract -0113 contains a special tooling clause which appears to us to give the Government full rights to usage (Defense Acquisition Regulation 7-104.25). Even if a legal claim for proprietary rights could be established by [redacted]

substantial savings can be achieved by purchasing the gearboxes [redacted]

For example, the Navy's Aviation Supply Office in Philadelphia, Pennsylvania, purchased the identical speed decreaser gearbox directly from General Electric. General Electric's price to Navy's Aviation Supply Office under a basic ordering agreement (F34601-79-G-0213-GBMT) for 46 gearboxes ordered in August 1981 was \$79,968 each, for a total of \$3,678,528. This unit price is substantially lower than the \$124,880 price negotiated by NAVAIR with Kaman in June 1982 on contract -0113 (\$4,495,698 divided by 36). The following section shows potential savings by breaking out these items.

Potential Savings by Breakout. DCAS files showed that DCAA, DCAS, and the Navy Procurement Contracting Officer (PCO) recommended the gearboxes for breakout. Also, DCAS officials have stated that the overhead and profit charged by General Electric and Kaman were excessive and the PCO was so informed. The final decision on price and whether to break out the buy, however, was made by NAVAIR. In a January 11, 1983 memorandum the NAVAIR program manager indicated that although breakout could save costs, the contractor furnished equipment method was being used [redacted] problems and the time lag since it last manufactured this part. We were told that [redacted]

However, no reason was given by the program manager for not buying the [redacted]

[redacted] We also found no evidence [redacted] had adversely affected delivery of helicopters to the Government on the Navy contracts cited previously. Current [redacted] are ahead of schedule. We therefore believe the Navy should avail itself of the substantial savings that can be achieved by breaking out these items as follows.