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COMPTROLLER GENERAL OF THE UNITED STATES
WASHINGTON, D.C. 20548

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RELEASED

2 Addresses

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A1 Dear Mr. Teague: + A2

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This is in response to your letter of July 27, 1971, supplemented by your letter of August 5, 1971, transmitting statements made by the Standard Manufacturing Company, Inc., Dallas, Texas, regarding invitation for bid F41608-69-B-0190, which resulted in Air Force contract F41608-69-C-6899 for the production of 114 MJ-1 Aerial Stores Lift Trucks. This advertised, fixed-price contract was awarded to the Tar Heel Engineering and Manufacturing Company, Spring Hope, North Carolina, in December 1968 by the San Antonio Air Materiel Area, Kelly Air Force Base, Texas.

We were able to confirm many of the statements of the Standard Manufacturing Company, Inc., regarding the handling and administration of this contract. As we advised your office, however, we believe that the selling of lift trucks belonging to the Air Force for export to a foreign government by the contractor and a questionable increase in the price of the contract are matters for consideration by the Department of Justice. To not jeopardize that Department's investigation, it was agreed with your office that these matters would not be included in this report but would be referred to the Department of Justice by us.

Originally this contract was for 81 MJ-1 Aerial Stores Lift Trucks, at \$6,667 each, or a total price of \$539,999. Subsequent modifications to the contract increased the number of lift trucks to 114 and the total price to \$917,500. Modifications to the lift trucks were considered by the Air Force to be extensive enough to change the official designation of the trucks to A/S32K-3.

Our inquiry included an examination of pertinent records at the procuring agency, the San Antonio Air Materiel Area; the administrative and paying agency, the Defense Contract Administration Services Region, Atlanta, Georgia; and the plant of the contractor, the Tar Heel Engineering and Manufacturing Company. The contractor voluntarily provided us with records of its commercial business that were pertinent to our examination. We also interviewed officials at each of these locations who were responsible for the matters we reviewed.

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Our findings pertaining to this contract follow.

Statement

Although the contract called for delivery of the lift trucks to be completed by October 1970, the contractor had delivered only 33 trucks as of July 27, 1971. Yet the contractor was paid the total amount of progress payments under the contract.

Finding

The delivery schedule for the 114 lift trucks originally provided for delivery to be completed by October 1970. The delivery schedules, however, were extended four times. The last delivery schedule called for delivery to be completed by January 1972.

As of July 31, 1971, 44 lift trucks had been delivered to the Air Force and the contractor had received \$621,684 in progress payments. In accordance with the contract, the maximum progress payments the contractor could have received was \$677,937. Because the contractor had commingled the costs incurred under this contract with those incurred for lift trucks sold to a foreign government, we were unable to determine the amount of progress payments that should have been paid under the Air Force contract.

The contract was terminated for default in January 1972, at which time the contractor owed the Government about \$229,000 for progress payments for lift trucks still undelivered.

Statement

Notwithstanding the receipt of maximum progress payments from the Air Force on the total contract, the contractor has not paid major vendors and suppliers for purchased parts and supplies. The contractor owes Wisconsin Motors approximately \$50,000 for engines and owes the Mid-Continent Steel Casting Company approximately \$28,000 for castings shipped under the contract.

Finding

The contractor's request for progress payments, submitted on a standard Department of Defense form, contained the following certification signed by a company official.

"I certify *** that all the costs of contract performance *** have been paid or will be paid currently, by the contractor, when due, in the ordinary course of business ***."

Our examination of the contractor's unpaid invoice files showed that, as of October 31, 1971, there was a total of \$175,728 in unpaid vendor invoices charged to the Air Force contract. The contractor owed Teledyne Wisconsin Motors \$36,447 primarily for engines received in 1970 and owed Mid-Continent Steel Casting Company \$21,630. Unpaid invoices for 42 selected vendors showed that most unpaid invoices were over 1 year old. The payment terms on these invoices ranged from cash payment upon receipt to net payment in 30 days.

Statement

The 33 lift trucks delivered by the contractor have been rejected by the U.S. Tactical Air Command. These lift trucks were involved in two major accidents, one of which resulted in serious personal injury to an airman and the other in structural damage to an aircraft.

Finding

The contract provides for inspection and acceptance of lift trucks at the contractor's plant. The Government representative at the plant has inspected and accepted 59 A/S32K-3 lift trucks. We found that 17 of the accepted lift trucks had been shipped to the Tactical Air Command and that 10 had been shipped to the Strategic Air Command. In March 1971 both commands suspended operational use of the lift trucks because of two separate incidents. Both incidents were attributable to a new braking system and a new accelerator pedal, which had been proposed as a value-engineering change by the contractor and which had been approved by the San Antonio Air Materiel Area and the using commands.

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Messages received at the San Antonio Air Materiel Area concerning the two incidents stated that a personal injury had occurred in one incident but did not mention any damages resulting from the other incident.

The message concerning the Tactical Air Command incident stated that:

*** The operator was unable to stop the unit when his heel came in contact with the unit enclosure as he attempted to operate the accelerator control pedal. *** The operator made a rapid turn to the left and the rear of the unit swung toward an airman causing the rear wheel and enclosure to strike him on the left leg, causing abrasions. No damage to bomb lift truck."

The message concerning the Strategic Air Command incident stated that:

*** During a training operation with inert training munitions using the A/S 32K-3 bomb lift with the new permanently installed load binder, an incident occurred which caused the buckle of the load binder to disengage. Loading evaluation team number five was loading inert bombs ***. The loading *** went without incident and the team began down-loading the training munitions. Ten bombs were unloaded without incident. While returning the eleventh bomb to the forty foot flatbed the A/S32K-3 operator failed to stop the A/S32K-3 when he drove between the flatbed extension arms. He raised his foot off the accelerator mechanism and the A/S32K-3 coasted into the rear of the flatbed *** sharply causing the load binder to release from the permanently installed buckle latch, when it rebounded after impact, allowing the inert bomb to fall to the ground."

We have been advised by personnel at the San Antonio Air Materiel Area that operational use of the lift trucks still is suspended, pending modification to correct the deficiencies. The modification is described as follows:

"Changes consist of redesigning accelerator pedal and 'deadman' control, installing hydraulically actuated rear wheel brakes and installing a rotary

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by-pass valve on Hydrostatic Drive Motor. Present configuration accelerator pedal has caused one ground accident resulting in personnel injury, and one explosive incident, resulting in dropping a practice bomb. Modification will provide an accelerator pedal giving more positive control of drive system, a full service braking system and a 'free-wheeling' feature for manual movement of unit in the event of engine failure. Using commands have discontinued use of equipment and requested that no more be delivered until deficiencies are corrected."

We were informed that the braking system to be installed was the braking system that originally had been used in the MJ-1 configuration of the lift truck before the contractor's value-engineering change was approved.

If we can be of further assistance in this matter, please let us know.

Sincerely yours,



Comptroller General
of the United States

The Honorable Olin E. Teague
House of Representatives