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UNITED STATES GENERAL ACCOUNTING OFFICE
REGIONAL OFFICE
ROOM 403 U S CUSTOMHOUSE 610 SOUTH CANAL STREET
CHICAGO, ILLINOIS 60607

FEB 8 1971

Captain E. E. Renfro
Commander, Defense Contract Administration
Services Region (DCASR)
O'Hare International Airport
P.O. Box 66475
Chicago, Illinois 60666

Dear Captain Renfro

We recently completed a survey of defense contracting activities at Ingersoll Products Division (IPD), Borg-Warner Corporation, Chicago, Illinois. The purpose of our survey was to inquire into certain management practices of the contractor as well as those of the Department of Defense agencies responsible for procurement and administration. The DCASR, Chicago is responsible for contract administration and maintains a resident Quality Assurance Representative (QAR) at the contractor's plant.

Generally, we found the areas surveyed to be managed in a satisfactory manner. We observed, however, that IPD (1) deviated from a Government drawing without approval and (2) did not follow specific instructions relating to the acceptance of repaired bomb bodies. These matters are discussed in more detail in this report.

During 1968 and 1969, IPD and the U. S. Navy Ships Parts Control Center (SPCC), Mechanicsburg, Pennsylvania, negotiated three firm fixed-price contracts totaling about \$32 million for production of MK82 GP bomb bodies. Delivery under these contracts began in January 1969 and are scheduled to continue through May 1971.

Drawing deviation without
Government approval

IPD negotiated contracts N00104-69-C-0003 and -0342, on the basis of purchasing the bomb body adapter, part number 1252606, one of the major components, rough machined in accordance with the dimensions shown on the Government drawing. IPD requested three deviations from the Government drawing which were approved contingent on meeting final machining requirements.

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In January 1969, shortly after negotiation for contract -0003, IPD revised the drawing, incorporating several changes which affected the final machined dimensions of the body adapter. Government approval for these changes was not requested. As a result of these drawing changes IPD changed its manufacturing process and negotiated a cost reduction with its subcontractors. This reduction, including IPD's general and administrative overhead and profit, amounted to about \$89,000.

We believe that IPD should have requested Government approval when it revised the drawing and changed the manufacturing process. At that time, the Government, in accordance with the contract clause relating to waivers and deviations, would have had the option of either accepting the deviation and participating in any cost savings or rejecting the deviation request.

Instructions not followed for
acceptance of repaired bomb bodies

IPD was responsible for repairing bomb bodies rejected during production. SPCC, in a message dated August 19, 1969, imposed a mandatory procedure for repairing bomb bodies that contained defective adapters. This message, in addition to including the detailed repair procedure, required that bomb bodies repaired in this manner would be accepted on a waiver basis only with a certification that the required procedure had been followed. Further, SPCC required that an offer of a price reduction of at least 5 percent should accompany the waiver.

IPD implemented the repair procedure on October 1, 1969, but did not submit waivers, certifications, or an offer for reduction in price. There was no evidence in the records to indicate that DCASR representatives initiated action to obtain the required waivers, certifications, or the price reduction. Further, at the time of our review, information was not readily available to ascertain the number of bomb bodies that might have been subject to the 5 percent price reduction.

We discussed this matter with DCASR and SPCC representatives. These officials could not explain why waivers were not required prior to Government acceptance of repaired bomb bodies nor why a price reduction was not obtained from the contractor.

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We discussed these matters with the contractor, SPCC and DCASR officials and furnished them with details as requested. Written comments were not solicited. While contractor officials did not agree that a request for a drawing deviation or a waiver to the specifications was required, Government officials informed us that the contractor should have requested a deviation and that the resident QAR should have required waivers in accordance with SPCC requirements, prior to acceptance of repaired bomb bodies.

We recommend that DCASR (1) review the matters discussed in this report to determine if existing procedures are adequate to prevent recurrence and (2) initiate action to determine if the Government is entitled to a price adjustment under terms of the contracts.

We will appreciate being advised of actions taken on the matters discussed in this report. Our staff will be made available should you require any further details.

Copies of this report are being sent to the Comptroller of the Navy, the Commander, Ships Parts Control Center, and to the Secretary-Treasurer, Ingersoll Products Division.

Sincerely yours,

M. R. Wolfson
M. R. Wolfson
Regional Manager