



UNITED STATES GENERAL ACCOUNTING OFFICE

WASHINGTON, D.C. 20548

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JUL 30 1971

DEFENSE DIVISION

Commanding General
Air Force Logistics Command
Wright Patterson Air Force Base, Ohio 45433

Attention: MCIML



Dear Sir:

The General Accounting Office reviewed the management of Government-furnished material by Air Force and contractor officials at two facilities operated by Air America, Inc., at Udorn, Thailand, and Tainan, Taiwan.

At these locations Air America performs repair, maintenance and modification work on various types of aircraft under several contracts administered by two Air Force Contract Maintenance centers. In fiscal year 1970 the contractor used Government-furnished material valued at \$51.2 million in carrying out these contracts.

OPPORTUNITIES FOR IMPROVEMENT IN
MANAGEMENT PRACTICES AT UDORN

At Udorn we found that there was a need to improve Air America's management of Government-furnished material and Air Force controls to protect the Government's interest. Specifically, (1) the contractor misstated values of Government-furnished material on hand in its fiscal year 1969 and 1970 reports to the Air Force, (2) the Air Force transferred an undetermined amount of Government-owned material to Air America without providing a basis for holding the contractor accountable for the material, (3) the contractor exercised inadequate quantitative control over Government-furnished material, and (4) the Udorn contract contained inconsistencies in supply instructions related to various types of aircraft which contributed to the contractor's noncompliance with its material control provisions. These matters were not questioned by the property administrator when he approved the contractor's property control system in September 1970.

Reporting of Government-
furnished material on hand

The Udorn contract requires Air America to report to the Air Force property administrator the dollar value of Government-furnished material in its possession at the end of the fiscal year. In both the June 30,

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1969, and June 30, 1970, reports, the contractor did not show the true values of inventory on hand. The values reported were no more than the differences between total releases and total receipts for those two fiscal years without considering the beginning inventory values. The amount of error in the two reports could not be readily determined because of the unreliability of stock records which is discussed below.

Local Air Force officials agreed that the contractor's method of computing Government-furnished material on hand was not proper. They informed us that an accurate determination was being made and that procedures were being established that would ensure accurate reporting in the future.

Transfer of Government-owned material

The Air Force transferred an undetermined amount of Government-owned T-28 aircraft parts and supplies to Air America without taking a physical inventory prior to the transfer. Estimates of the number of items and values transferred range from 3,000 items valued at \$900,000 by a contractor official to 8,500 items valued at \$2,225,000 by an Air Force official.

On July 15, 1970, 15 days after the fiscal year 1971 contract became effective, all T-28 aircraft supply inventories and associated stock record cards were transferred to Air America. Contrary to Air Force regulations, neither a physical inventory of the items nor an audit of the Air Force stock record cards was made upon transfer. As a result, the Air Force had no basis for holding the contractor accountable for the inventory.

Control over Government-furnished material

At the time of our review, extensive excess inventories of Government-furnished material may have been on hand based on amounts recorded on stock record cards. This could not be definitely determined, however, without taking a physical count of all inventory items. As shown below, significant discrepancies existed between stock record values and actual amounts of selected items on hand in the warehouse.

We sampled 335 items in one account having a stock record value of \$102,258 and found that \$48,140, or 47 percent, of our sample was excess based on the previous 12 months' actual consumption data. Our sample provided a basis for projecting excess inventory at about \$4.8 million of a total inventory of about \$10 million.

We counted a limited number of items to test the accuracy of the stock record cards. Our count showed that the stock record cards did not accurately reflect the balances on hand. For 20 items valued at \$21,947--which had been counted in October 1970--there was a gross error rate of 13.2 percent which amounted to a discrepancy of \$2,903. For another 50 items valued at \$14,616--which had not been counted since prior to February 1970--the gross error rate was 48.6 percent which amounted to a discrepancy of \$7,098. The discrepancies existed after considering delays in posting.

Local Air Force officials informed us that the discrepancy rates we found were higher than those reflected by the contractor's historical inventory adjustment made after the annual cycle inventory. They stated that increased management attention would be given to this area.

Supply instruction inconsistencies

We noted that Air America's Udorn contract contained at least four different supply instructions related to various types of aircraft. There were inconsistencies in these instructions which we believe (1) made the contract difficult to administer, (2) confused the contractor, and (3) provided the contractor with a ready excuse for not complying with the material control provisions of the contract.

For example, supply instructions for the C-7A and C-123 aircraft required periodic reviews of stock record cards, whereas the procedures for other aircraft had no such requirement. We noted that the supply instruction for the T-29 aircraft lacked direction in such vital areas as (1) material control records, (2) stock levels, (3) reorder points and safety levels, (4) disposition of excess Government-furnished material, (5) disposition of condemned items and (6) contract reporting.

Local Air Force officials informed us that action was being taken to provide more standardization in supply instructions.

MANAGEMENT PROBLEMS AT TAINAN

At Tainan we also found excess quantities of Government-furnished material and inaccurate stock record cards. The Air Force and Air America have taken steps to correct the problems. For example,

during the 15-month period ended September 30, 1970, returns of excess Government-furnished material amounted to about \$4.5 million. The contractor was training supply personnel, increasing supervision, and revising stock record cards in an attempt to improve the management of Government-furnished material.

RECENT AIR FORCE ACTIONS

In view of the deficiencies we found at Udorn, we suggested that local Air Force officials consider withdrawing approval of Air America's property control system at that facility. We were informed that, based upon our findings, approval of the contractor's system for the control of Government-furnished material was withdrawn, effective December 1, 1970, and that the Defense Contract Audit Agency had been requested to make a detailed audit of Air America's property control system.

At Tainan, local Air Force officials, noting deficiencies similar to those we found, had withdrawn approval of Air America's property control system on August 21, 1970. Approval had not been reinstated at the time of our review.

CONCLUSIONS

We believe that control of Government-furnished material at Air America's Udorn and Tainan facilities was not adequate to protect the interests of the Government.

We would appreciate your comments regarding any further actions you plan on these matters.

Sincerely yours,

James H. Hammond
Associate Director

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