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

72-0347
AUG 19 1971

DEFENSE DIVISION

B-173749



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Dear Mr. Secretary:

The General Accounting Office has made a study of the program established by the Department of Defense (DOD) to reduce and control the number of management systems imposed on contractors by the military services and defense agencies. The Government requires that contractors establish and maintain management systems to provide information for their own management purposes as well as to provide a basis for furnishing information to the military services so that they may be assisted in managing contracts from the standpoint of the Government. Costs incurred by contractors to provide the various systems required by the services ultimately are borne by the Government.

The purpose of our study was to obtain information on the status of the program, the procedures used in carrying out the program, and the problems being encountered in its implementation. During our study we interviewed personnel from various offices of the Secretary of Defense, the military departments, the Defense Supply Agency, and military procurement centers. We also discussed the program with officials of the Council of Defense and Space Industry Associations (CODSIA) and selected contractors.

In November 1966 DOD and CODSIA formally chartered an Advisory Committee for Management Systems Control. The objective of this joint effort was to curb the proliferation of management systems, which was resulting from the varied requirements then imposed on contractors by the individual services and defense agencies. Efforts were directed toward making recommendations for reducing the duplication and overlapping of existing systems and for establishing procedures to eliminate further proliferation.

The advisory committee examined into the need for and use of management systems; reviewed the directives, instructions, and regulations which prescribed the systems; and recommended revisions or improvements. It also drafted procedures to be followed in developing new systems and applying them on contracts.

The committee recommended that DOD (1) publish the procedures as instructions, (2) publish a single list of authorized management systems, and (3) include in the Armed Services Procurement Regulation (ASPR) a provision to ensure adherence to the use of the authorized list when contracts are being prepared. The report on the committee's work, containing its recommendations, was submitted to the Assistant Secretary of Defense (Comptroller) in March 1968.

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DOD implemented the committee's recommendations by publishing, on June 6, 1968, Instruction 7000.6 to control the development of new management systems and Instruction 7000.7 to control the selection of management systems and their use on contracts. DOD published also an initial list of management systems and included in ASPR a requirement for its use.

To compile a single list from which systems could be selected for application on contracts, an inventory was made of all documents represented to be management systems in existence throughout the military services and defense agencies. There was no requirement, however, for an analysis of each document to determine whether it was a management system or a part thereof. Progress in eliminating similar and duplicate systems from this inventory of over 1,200 documents was slow.

Although the program started in 1966, proliferation of management systems was still evident 3 years later. The S-3A aircraft contract provides an example of such proliferation. The contract requires the contractor to submit a Contract Functional Cost-Hour Report and a Cost Information Report Functional Cost-Hour Report. (See encs. I and II.) The reports provide similar information on labor hours; labor dollars; and overhead, material, and other costs. Each report, however, requires a different system to provide the necessary data. These reports were designed to meet the needs of the Naval Material Command and the Office of the Assistant Secretary of Defense (Systems Analysis).

In October 1969 CODSIA wrote to the Deputy Secretary of Defense and expressed its concern over the lack of emphasis being placed on the program to eliminate the large number of redundant, duplicative, and conflicting systems available for application on contracts. The Deputy Secretary of Defense then sent a memorandum to the Assistant Secretaries of Defense (Installations and Logistics) and (Comptroller) and to the Director, Defense Research and Engineering, requesting that they "**** get together *** to assure that necessary priorities and resources are provided to meet an accelerated completion plan."

Shortly thereafter DOD, with the assistance of contractors, began to review and analyze the systems. This effort resulted in the publication in July 1970 of the first Authorized Management Control Systems List which authorized the use of 170 systems. The list was reviewed to eliminate overlapping and to combine systems into joint-service documents, where possible, so that they could be used by all services and defense agencies. A revised list containing 129 authorized systems was issued in March 1971.

This revised list, however, still contains management systems which overlap. For example, there are three authorized systems relating to the Contract Funds Status Report, three relating to Cost Information Reports, and several

relating to PERT time and cost. We were advised that the revised list was undergoing review.

In March 1971 the instructions which had been issued in June 1968 were combined into a single Instruction 7000.6 titled "Acquisition Management Systems Control." This change was made to clarify the instructions, to combine similar information contained in each, and to modify the established procedures for the program.

The present requirements placed on contractors for management systems are costly, and the program established by DOD to reduce and control these systems has moved at a slow pace. Although we did not develop formal estimates of the annual costs of requiring contractors to maintain and furnish information on their defense contracts, we believe that there is good potential for significant savings in procurement costs through a reduction of management systems. There is overwhelming agreement among DOD personnel and defense contractors that the program to reduce and control the number of management systems was long needed and should be completed. It seems to us that DOD could complete the work by increasing emphasis on, and applying more resources to, the program.

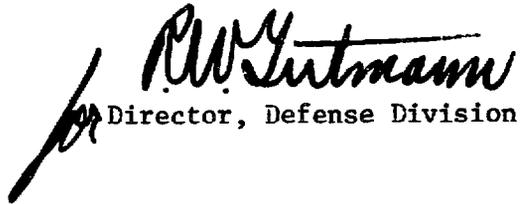
The new instruction decentralizes authority by transferring responsibility for approval of new management systems to the military services and defense agencies. One of the major problems cited as a cause of proliferation at the time the program was initiated was the absence of centralized management control. This problem was recognized in June 1968 and was the reason for placing control in the Office of the Assistant Secretary of Defense (Comptroller) at that time. In February 1969, however, a temporary moratorium was placed on centralized control and approval authority was given to the service Secretaries and defense agencies. This authority was made permanent in March 1971. Since the absence of centralized control once was considered a major cause of the proliferation problem, we believe that the March 1971 decision to decentralize will bear watching to see whether there is any indication of renewed proliferation.

We shall appreciate receiving your comments on the above observations. If you desire, we shall be pleased to furnish you with any additional information we have on this study. Copies of this letter are being sent to the

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Director, Office of Management and Budget; the Secretaries of the Army, Navy,
and Air Force; and the Commission on Government Procurement.

Sincerely yours,


Director, Defense Division

Enclosures - 2

The Honorable
The Secretary of Defense

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CONTRACT FUNCTIONAL COST HOUR REPORT <small>(Output and Hours in Thousands)</small>	PROGRAM CONTRACT NO.	APPROVAL OF BUDGET BUREAU NOT REQUIRED SEE INSTRUCTIONS ON REVERSE REPORT FOR QUARTER'S ENDING													
CONTRACTOR		PLANT AND PLANT LOCATION (Check for Lab)													
FUNCTIONAL CATEGORIES	PRIME ITEM	SPARES AND REPAIR PARTS													
SUPPORT EQUIPMENT	ALL OTHER	TOTAL CONTRACT													
1 MANUFACTURING															
a Direct Labor Hours															
b Direct Labor Dollars															
c Overhead															
d Material															
e Other Direct Charges															
f Total															
2 TOOLING															
a Direct Labor Hours															
b Direct Labor Dollars															
c Overhead															
d Material and Purchased Tools															
e Other Direct Charges															
f Total															
3 QUALITY CONTROL															
a Direct Labor Hours															
b Direct Labor Dollars															
c Overhead															
d Other Direct Charges															
e Total															
4 MANUFACTURING															
a Direct Labor Hours															
b Direct Labor Dollars															
c Overhead															
d Material and Purchased Parts															
e Other Direct Charges															
f Total															
5 PURCHASED EQUIPMENT															
6 MATERIAL OVERHEAD															
7 SUB CONTRACT															
8 OTHER ITEMS NOT SHOWN ABOVE															
a Packages															
b															
c															
9 TOTAL (USE LESS G&A)															
10 G&A															
11 DIRECT LABOR MAN-HOURS INCURRED ON THIS CONTRACT (Prime Item Only)															
	MANUFACTURING	ENGINEERING													
		TOOLING													
		DESIGN													
		FAB													
		MANUFACTURING QUALITY CONTROL													
Total Beginning of Quarter															
Month of (1)															
(2)															
(3)															
Total End of Quarter															
12 PLANT WIDE EMPLOYMENT WAGE & OVERHEAD INFORMATION															
	FIRST MONTH				SECOND MONTH				THIRD MONTH						
	DIRECT EMPLOYEES		INDIRECT EMPLOYEES		DIRECT EMPLOYEES		INDIRECT EMPLOYEES		DIRECT EMPLOYEES		INDIRECT EMPLOYEES				
	WAGE RATES		WAGE RATES		WAGE RATES		WAGE RATES		WAGE RATES		WAGE RATES				
	NO.	BASIC	EFF.	NO.	ON RATE	NO.	BASIC	EFF.	NO.	ON RATE	NO.	BASIC	EFF.	NO.	ON RATE
Manufacturing															
Engineering															
Tooling Design															
Tooling Fab															
Mfg. Quality Control															
Material OH Rate															
G&A OH Rate															
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NAME OF PERSON TO BE CONTACTED										SIGNATURE			DATE		

