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

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The Honorable William Proxmire
Vice Chairman, Joint Economic Committee
Congress of the United States

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Dear Mr. Vice Chairman:

On August 2, 1973, your office asked us to provide you with information on improvements which Government contractors have instituted as a result of recommendations by GAO and Department of Defense should-cost teams.

In response to your July 24, 1973, letter, we are presently following up on the actions by the contractors whose operations were reviewed by the Army and Navy should-cost teams and will advise you separately of the results. Our comments in this letter, therefore, will address only the actions resulting from the three GAO industrial management reviews discussed in our June 26, 1973, report to the Congress (B-159896).

As we pointed out, some suggested improvements will require time to implement, during which product lines or product quantities may vary, and many of our suggestions will require further study by the contractors to determine the most feasible approach for changing their operations. Consequently, we are unable to precisely quantify the savings which could result from our suggestions.

As discussed below, information from the contractors and cognizant agency personnel indicates that actions since our fieldwork have improved operations at the plants we reviewed.

The three contractors took positive actions to correct deficiencies in their production control systems. For example, one of the contractors completely reorganized its production control system to achieve the necessary centralized control; in a second plant, production control and scheduling procedures were written for the first time and issued to all affected departments.

At the two plants in which we found major weaknesses in the labor standards programs, the contractors initiated steps to insure that more operations were covered by standards and

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hired more engineers to establish new standards and to update standards as methods and processes change.

Significant costs were being incurred in each of the plants for preventive maintenance and repair of production equipment. Improvements taken or promised because of our work should result in less production downtime, fewer large-scale repairs, lower machine repair costs, and less overtime.

Our work-sampling studies in selected areas showed that the contractors needed to take steps to reduce nonproductive time. One of the contractors advised us that its plan to implement our findings included:

- Meetings with all manufacturing foremen and all hourly personnel reviewing results of our study and stressing areas where improvements are needed.
- A competitive program by work area to reduce idle and unobserved time.
- Studies of setup time to see where improvements can be made.
- Monitoring of idle time and disciplinary action where required.

In addition to the contractors' actions to improve operations, our industrial management reviews precipitated actions by agency procurement and contract administration officials that should benefit the Government in future dealings with these and other contractors. Among the specific improvements implemented at the three plants we reviewed were:

1. The agency approved the removal of excess Government equipment enabling the contractor to improve plant layout.
2. The contractor received agency approval to tear down fewer aircraft engines for inspection and retest thus reducing costs.
3. The agency promised increased Government surveillance to prevent unauthorized use of Government equipment.
4. A work measurement study was scheduled at one of the plants. The study will be directed specifically to the development, maintenance, and application of work standards and will provide a baseline for future evaluation of the contractor's operation.

Your continued interest in using the should-cost approach to bring about improvements in the efficiency and economy of contractors' operations is appreciated. We wish to assure you that we will closely monitor the Department of Defense's future use of this approach and will be alert to opportunities to increase the benefits derived. In addition, we will continue to apply the industrial engineering approach in our reviews of selected contractor operations. We plan to make industrial management reviews of some private shipbuilders' operations to be initiated in the near future and to use this approach in our reviews of certain Atomic Energy Commission weapons production plants.

We trust that the above information will satisfy your needs. If we can be of further assistance, please let us know.

Sincerely yours,

A handwritten signature in cursive script, appearing to read "James B. Argets".

Comptroller General
of the United States