

United States General Accounting Office

GAO

Briefing Report to the Chairman,
Committee on Armed Services, House of
Representatives

December 1987

STRATEGIC FORCES

Procurement Practices at Northrop's Advanced Systems Division



134871

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United States
General Accounting Office
Washington, D.C. 20548

National Security and
International Affairs Division

B-224698

December 21, 1987

The Honorable Les Aspin
Chairman, Committee on
Armed Services
House of Representatives

Dear Mr. Chairman:

This briefing report responds to your June 24, 1987, request that we review procurement practices at Northrop Advanced Systems Division (NASD). You asked us to determine if any of the unusual procurement practices used at another division, Northrop Electronics, were evident at NASD. You also asked us to determine the status of the NASD purchasing system and to identify government audits of NASD operations.

We briefed your representatives on the results of our review on November 4, 1987. We stated that a September 1987 internal audit by NASD revealed no evidence that it used "doing business as" (DBA) accounts. These accounts, as used by Northrop Electronics Division, circumvented the established purchasing system in order to quickly procure parts for the MX missile. Without appropriate controls, this practice increases the risk of procuring substandard or duplicate parts. The Air Force is currently reviewing the NASD audit report and is scheduled to complete its review by December 31, 1987. We also reported that the Air Force completed a review of the NASD purchasing system on October 15, 1987. The review disclosed numerous deficiencies and the system was not approved by the Air Force. Finally, we identified the number and nature of audits performed to date at NASD.

Because much of the information we obtained is classified, we cannot discuss the details in this report. However, some unclassified information which responds to specific questions in your June letter is contained in the appendix. Upon request, we will provide additional information on each of these questions to properly cleared individuals. As agreed with your representatives, we will continue to monitor these issues as a part of our work on other ongoing assignments.

We discussed our findings in detail with both Air Force and NASD officials and they concurred with the facts presented in the report. As you requested, we did not obtain official comments from the Department of Defense or NASD.

We performed our work from July through October 1987 at the Air Force Aeronautical Systems Division, Wright-Patterson Air Force Base, Dayton, Ohio and at NASD, Pico Rivera, California where we discussed the use of unusual procurement practices with NASD personnel and Air Force program officials. We also contacted the Air Force Plant Representative Office and Defense Contract Audit Agency personnel to discuss the status and results of their audit activities at NASD.

As arranged with your office, unless you publicly announce its contents earlier, we will not distribute this report until 30 days after its issue date. At that time, copies will be made available to appropriate congressional committees; the Secretaries of Defense and the Air Force; the Director, Office of Management and Budget; and other interested parties.

If there are any questions regarding this briefing report, please call me on 275-4265.

Sincerely yours,



Harry R. Finley
Senior Associate Director

ANSWERS TO QUESTIONS ASKED BY THE CHAIRMAN,
HOUSE COMMITTEE ON ARMED SERVICES

1. Does the Northrop Advanced Systems Division (NASD) use "doing business as" or other petty cash accounts for procurement purposes? This type of account was utilized at the Northrop Electronics Division.
2. If such accounts exist, what are they used for?

In a June 17, 1987, letter, NASD informed the Air Force that "There are no DBA's or any other fictitious name organizations at NASD performing procurement functions of the nature attributed to Engineering Liaison Services." (Engineering Liaison Services was a fictitious company used by Northrop Electronics Division to buy parts for the MX missile.) The June letter was the basis for subsequent Air Force assurances to the Congress that NASD was not using unusual procurement techniques.

Through our discussions with NASD officials, we found that this letter was based on preliminary interviews with NASD petty cash managers. NASD has since completed a more systematic review needed to substantiate that such accounts did not exist and a final report was issued on September 11, 1987. The report concludes that "neither NASD nor any individual had established a DBA account." The Air Force Plant Representative Office, in conjunction with the resident Defense Contract Audit Agency office, is reviewing NASD's audit report. They expect to conclude their efforts by December 31, 1987.

3. What is the status of the purchasing system at NASD? Has that system been reviewed and approved by AFPRO personnel at the facility?

The Air Force has not approved the NASD purchasing system. The Air Force Plant Representative Office has completed several limited reviews and the Air Force Contract Management Division completed a full-scale review of the purchasing system on October 15, 1987. The full-scale review identified a sufficient quantity of deficiencies to preclude Air Force approval of the system. As a result of the continuing deficiencies, NASD has voluntarily suspended a small portion of its total billings. NASD is currently developing corrective action plans to correct these deficiencies. Once NASD implements these plans, the Air Force will undertake another review.

4. What is the status of completed or pending audits at NASD performed by the Defense Contract Audit Agency?

Prior to October 1986, the Defense Contract Audit Agency had completed 80 reports on NASD activities using a specialized group of nonresident auditors. At the time of our review, 28 additional audits had been completed and 63 audits were either in process or planned to begin by December 1987. Specific details on these audits are classified.

5. Have any Air Force administrative audits occurred at NASD during the last 4 years? This examination should include any Contractor Operational Reviews performed by the Contracts Management Division of the Air Force, Multi-Zone Evaluations, Program Assurance Integrity Reviews, and any other management reviews that may have been conducted. What were the findings of these reviews?

Nine Air Force administrative audits have been completed at NASD over the last 4 years, including four zone evaluations of various functional areas in the NASD plant. Details on the findings of these reports are classified, and therefore not discussed in this report. To date, no Contractor Operational Reviews or Product Assurance Integrity Reviews have been conducted.

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