

234

88th Congress }
1st Session }

JOINT COMMITTEE PRINT

BACKGROUND MATERIAL ON ECONOMIC
ASPECTS OF MILITARY PROCUREMENT
AND SUPPLY

MATERIALS PREPARED
FOR THE
SUBCOMMITTEE ON DEFENSE PROCUREMENT
OF THE
JOINT ECONOMIC COMMITTEE
CONGRESS OF THE UNITED STATES

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U.S. GOVERNMENT PRINTING OFFICE

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WASHINGTON : 1963

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RAY WARD, *Economic Consultant*

LETTER OF TRANSMITTAL

To Members of the Joint Economic Committee:

Submitted herewith for the consideration of the members of the Joint Economic Committee and others is a report presenting "Background Material on Economic Aspects of Military Procurement and Supply, March 1963" to update a similar report of February 16, 1960.

This study was prepared by temporary staff member Ray Ward in connection with the Subcommittee on Defense Procurement's hearings on "The Impact of Defense Procurement," to be held March 28-29 and April 1, 1963.

The materials contained in this report provide a most comprehensive and useful examination into the economic aspects of the vastly complicated programs and systems of military procurement and supply.

The findings and conclusions are those of the author. The committee indicates neither approval nor disapproval by publication of this committee print.

PAUL H. DOUGLAS,
Chairman, Joint Economic Committee.

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BACKGROUND MATERIAL ON ECONOMIC ASPECTS OF MILITARY PROCUREMENT AND SUPPLY, MARCH 1963

INTRODUCTION

The Subcommittee on Defense Procurement of the Joint Economic Committee held public hearings in January 1960¹ and issued a report thereon in October 1960.² The report carried this general statement:

Chairman Douglas emphasized that the subcommittee would limit its study to the impact of procurement and disposal policies on the economy, that it would not be concerned with questions of military strategy, weapons, size of forces, etc.—nor with the broad problem of the overall economics of disarmament—but with the purely economic and budgetary issues involved in the way the Nation spends over two-thirds of its budget.

Our economy can and must bear any necessary defense expenditures for the present and for the long pull ahead. There is no acceptable alternative to this position. However, the economy should not be required to shoulder the great burden of waste and inefficiency that has characterized the duplicative and overlapping military supply and service systems for the past two decades.

The billions that have been wasted could have been used for more adequate national defense for missiles, for submarines, for the better supply of troops with modern weapons, and for such civilian needs as schools, hospitals, urban redevelopment, roads, conservation, and debt or tax reduction. It is a shame that the military bureaucracies are wasting the precious economic lifeblood of this country, and simultaneously stinting both the military and civilian programs of essential needs. This is a nonpartisan issue of great moment.

On June 12, 1961, the subcommittee held a brief hearing to learn of progress made by the Department of Defense in reducing the impact of military procurement on the economy.³

At that time the subcommittee was advised that the Secretary of Defense had initiated Project 100 in response to the first recommendation of the subcommittee report of October 1960 (p. 2).⁴ Project 100 requested the consideration of three alternative organizational plans for common supply management:

1. Perpetuation of the assignment to individual departments of single-manager responsibility for specified commodities.
2. The consolidation of all such single-manager agencies into a master agency, reporting to the Secretary of one of the three Departments.
3. A consolidated agency as in (2), above, reporting either to the Joint Chiefs of Staff or to a designee of the Secretary of Defense.

On August 31, 1961, Secretary McNamara issued a press release⁵ announcing that he had approved alternative No. 3 and that the Director of the newly created Defense Supply Agency would be

¹ "Impact of Defense Procurement," hearings before the Subcommittee on Defense Procurement of the Joint Economic Committee, 86th Cong., 2d sess., Jan. 28, 29, 30, 1960 (hereafter referred to as "1960 hearings").

² "Economic Aspects of Military Procurement and Supply," report of the Subcommittee on Defense Procurement to the Joint Economic Committee, 86th Cong., 2d sess. (hereafter referred to as 1960 report).

³ "Progress Made by the Department of Defense Reducing the Impact of Military Procurement on the Economy," hearing before the Subcommittee on Defense Procurement of the Joint Economic Committee, Congress of the United States, 87th Cong., 1st sess. (hereafter referred to as "1961 hearings").

⁴ *Ibid.*, pp. 36, 44, 156.

⁵ *Ibid.*, p. 156.

appointed by and report directly to the Secretary of Defense. The Defense Supply Agency (DSA) was activated October 1, 1961, by its first Director, Lt. Gen. A. T. McNamara, U.S. Army. It became operational January 1, 1961. Since that date it has achieved notable success as a recent report by the Director shows (app. 1).

Closely related to the DSA is the general cost reduction program which Secretary McNamara is confident will save \$3.4 billion annually by the end of fiscal year 1965 (app. 2).

The 1960 Report indicated the scope of military supply activities, the quality of operation as shown by numerous GAO and other studies, the many congressional and other efforts directed toward improvement and made the following recommendations:

RECOMMENDATIONS ⁶

1. The Secretary of Defense should use his broad authority, especially under the O'Mahoney and McCormack-Curtis amendments, at once to begin consolidating the many common supply activities in the Department of Defense (DOD) into a common agency operating at the Office of the Secretary of Defense level.

The consolidated agency should be staffed with a highly trained, well-paid DOD corps of experts drawn from the existing services, industry, and Government, and responsible to the Secretary of Defense.

The consolidated agency, assisted by necessary advisory groups, should have control of all facets of common supply management from requirements determination through procurement, transportation, storage, issuance (utilization), and surplus disposal.

It must have authority over cataloging and standardization of specifications.

It should be given control over common supply funds.

2. Every effort should be made to use the time-honored, formally advertised, full competitive bid procedure for procurement in lieu of the subjective negotiation procedures. This applies also for procurement of components used in various end items by Government agencies and cost-plus contractors. The normal distribution systems of industry should be used to the maximum in lieu of costly warehousing of civilian-type items.

3. The Bureau of the Budget (BOB) should assist in every possible way to expedite the establishment of the consolidated supply agency and in establishing other consolidated service functions. The BOB should be of special assistance with regard to the transfer of funds, personnel, facilities, etc.

4. The role of the General Services Administration (GSA) vis-a-vis the DOD should be spelled out at least for the next 5 years, approved by Presidential directive, fully implemented, and supported by the Executive Office. Needed funds, facilities, and personnel should be transferred with transferred functions.

5. The Commerce Department should be given definite authority of approval over surplus property disposals which may have adverse impacts on the national economy.

6. The Commerce Department, Labor Department, and Small Business Administration (SBA) should be brought into consultation with respect to procurement and other supply actions affecting the economy in order to obtain a more equitable allocation of defense business.

7. BOB, DOD, and GAO should come to a decision as to the proper use of stock funds and rescind funds not absolutely justified.

8. The proper legislative committees should sponsor uniform patent legislation applicable to Government contracts, based upon the principle that Government expense creates Government property.

9. All other common service activities as intended by the McCormack-Curtis amendment should be carefully reviewed by top management and placed under consolidated management wherever practicable. This includes communications, auditing, engineering, recruiting, medical care, to name a few, both at home and abroad.

⁶ Pp. XI-XII, 1960 report.

MAGNITUDE OF DOD PROPERTY MANAGEMENT ACTIVITIES

Property holdings (table 1)

The total of DOD's real and personal property holdings has risen steadily from \$129 billion in fiscal year 1955 to \$165 billion at the end of fiscal year 1962. Real property holdings have risen in the same period from \$21 billion to \$35 billion and personal property holdings from \$107 billion to \$128 billion.

It is interesting to note that "supply systems inventories" declined from a high of \$54 billion in 1957 to \$41 billion in 1962.

TABLE 1.—DOD property holdings as of June 30¹

[Millions of dollars]

Total and type of property	1955	1956	1957	1958	1959	1960	1961	1962
Total.....	128,694	134,082	146,021	149,465	150,660	154,617	158,508	164,835
Real.....	21,343	22,918	24,892	26,891	29,689	31,997	34,038	35,378
Personal.....	107,351	111,164	121,129	112,574	120,971	122,620	124,470	129,457
Supply systems.....	50,780	50,974	53,799	47,652	44,467	42,002	40,837	40,652
Stock funds.....	8,153	9,772	10,970	8,913	8,162	7,312	6,413	6,154
Appropriated funds.....	42,627	41,202	42,829	38,739	36,305	34,690	34,424	34,498

¹ Source: Annual Reports of Committee on Government Operations, House of Representatives, on Real and Personal Inventory of the U.S. Government.

Expenditures for DOD military functions as a percentage of the gross national product have remained quite constant for the past 7 years.

TABLE 2.—Expenditures for Department of Defense military functions as a percentage of gross national product, fiscal years 1939-62

[Billions of dollars]

Fiscal year	Gross national product	DOD military function		Fiscal year	Gross national product	DOD military function	
		Expenditures	Percent of GNP			Expenditures	Percent of GNP
1939.....	88.2	1.1	1.2	1951.....	310.8	19.8	6.4
1940.....	95.7	1.5	1.6	1952.....	338.8	38.9	11.5
1941.....	110.5	6.0	5.4	1953.....	359.7	43.6	12.1
1942.....	140.5	23.6	16.8	1954.....	362.0	40.3	11.1
1943.....	178.4	62.7	35.1	1955.....	377.0	35.5	9.4
1944.....	202.8	75.8	37.4	1956.....	408.5	35.8	8.8
1945.....	218.3	80.0	36.7	1957.....	433.0	38.4	8.9
1946.....	202.8	42.0	20.7	1958.....	440.2	39.1	8.9
1947.....	223.3	13.8	6.2	1959.....	466.7	41.2	8.8
1948.....	246.6	10.9	4.4	1960.....	494.8	41.2	8.3
1949.....	261.6	11.6	4.4	1961.....	506.6	43.2	8.5
1950.....	263.8	11.9	4.5	1962.....	539.4	46.8	8.7

Source: OASD Comptroller FAD-119 (fiscal year-1964-1) Jan. 17, 1963.

Tables 3 and 4 show an increase of 205,966 military personnel at the added cost of \$1,054,774,000 between June 30, 1959, and June 30, 1962. At the same time the number of civilian personnel decreased by 3,127 but with a payroll increase of \$523,220,000.

TABLE 3.—Number of DOD military and civilian personnel stationed in the United States (including Alaska and Hawaii) and annual payrolls, by State of duty location.

	Active duty military personnel		Civilian employees	
	Number June 30, 1959 ¹	Estimated annual pay and allowances ²	Number June 30, 1959	Estimated annual pay- roll ³
U.S. total.....	1,563,007	\$5,893,293,000	973,375	\$5,304,998,000
Alabama.....	22,723	86,626,000	38,950	208,720,000
Alaska.....	32,033	124,022,000	6,373	43,320,000
Arizona.....	21,269	83,873,000	7,176	38,552,000
Arkansas.....	10,557	42,134,000	3,764	20,346,000
California.....	208,827	756,860,000	143,329	780,373,000
Colorado.....	28,431	110,658,000	14,477	77,443,000
Connecticut.....	5,513	19,943,000	2,394	13,139,000
Delaware.....	7,198	30,064,000	1,512	8,056,000
District of Columbia.....	⁴ 19,724	73,456,000	34,316	188,037,000
Florida.....	62,595	248,252,000	25,113	136,687,000
Georgia.....	69,823	258,928,000	33,511	179,627,000
Hawaii.....	37,536	133,195,000	18,895	123,841,000
Idaho.....	4,747	19,560,000	720	3,891,000
Illinois.....	45,171	169,996,000	29,284	158,650,000
Indiana.....	8,006	31,472,000	11,025	60,109,000
Iowa.....	1,987	8,045,000	522	2,807,000
Kansas.....	34,875	135,205,000	6,504	34,826,000
Kentucky.....	43,988	156,074,000	12,077	65,604,000
Louisiana.....	21,932	89,790,000	7,110	38,471,000
Maine.....	13,022	53,559,000	1,921	10,325,000
Maryland.....	⁴ 47,378	173,765,000	41,075	223,710,000
Massachusetts.....	36,732	142,589,000	25,492	138,761,000
Michigan.....	12,828	50,898,000	9,645	52,062,000
Minnesota.....	4,756	19,123,000	1,752	9,423,000
Mississippi.....	21,728	90,915,000	6,025	32,254,000
Missouri.....	29,704	110,772,000	15,032	80,908,000
Montana.....	6,070	25,371,000	718	3,668,000
Nebraska.....	14,554	60,773,000	4,212	22,659,000
Nevada.....	7,146	28,858,000	2,847	15,346,000
New Hampshire.....	9,007	36,408,000	8,866	48,808,000
New Jersey.....	42,940	158,068,000	26,458	141,701,000
New Mexico.....	23,882	95,410,000	11,259	60,511,000
New York.....	40,231	155,611,000	55,128	299,629,000
North Carolina.....	73,434	247,757,000	10,225	55,944,000
North Dakota.....	2,960	12,364,000	676	3,634,000
Ohio.....	19,317	78,981,000	39,573	211,370,000
Oklahoma.....	31,052	118,148,000	25,423	135,211,000
Oregon.....	4,799	19,298,000	3,715	20,102,000
Pennsylvania.....	15,760	57,122,000	69,027	375,541,000
Rhode Island.....	7,087	25,344,000	8,613	47,519,000
South Carolina.....	48,687	182,035,000	14,248	77,914,000
South Dakota.....	7,050	29,139,000	1,519	8,168,000
Tennessee.....	19,215	71,366,000	8,065	43,396,000
Texas.....	160,721	630,200,000	58,901	314,656,000
Utah.....	3,207	12,579,000	17,844	95,387,000
Vermont.....	1,510	6,276,000	275	1,464,000
Virginia.....	⁴ 85,637	307,354,000	77,536	427,842,000
Washington.....	48,969	185,219,000	26,063	142,355,000
West Virginia.....	651	2,496,000	1,127	6,136,000
Wisconsin.....	5,079	20,196,000	2,043	10,979,000
Wyoming.....	1,726	7,211,000	765	4,060,000
Undistributed.....	⁴ 29,130	99,935,000	195	1,056,000
Washington, D.C., metropolitan area.....	59,063	219,831,000	78,870	434,033,000
District of Columbia.....	⁴ 19,724	73,456,000	34,316	188,037,000
Maryland.....	⁴ 9,583	38,350,000	11,932	65,162,000
Virginia.....	⁴ 29,756	108,025,000	32,622	180,834,000

¹ Excludes naval personnel assigned to fleet units and to other afloat and mobile activities.

² For number of personnel indicated in preceding column.

³ Partly estimated.

⁴ In transit.

Source: Statistical Services Center, Office of Secretary of Defense, Oct. 28, 1959.

TABLE 4.—Number of DOD military and civilian personnel stationed in the United States (including Alaska and Hawaii) and annual payrolls, by State of duty location

	Active duty military personnel		Civilian employees	
	Number June 30, 1962 ¹	Estimated annual pay and allowances ²	Number June 30, 1962	Estimated annual pay- roll ²
United States total.....	1,768,973	\$6,948,067,000	970,248	\$5,828,218,000
Alabama.....	24,471	96,893,000	36,119	215,290,000
Alaska.....	31,887	128,820,000	6,016	44,780,000
Arizona.....	19,208	79,176,000	7,551	45,031,000
Arkansas.....	19,252	77,729,000	4,563	27,064,000
California.....	223,308	842,670,000	144,743	866,915,000
Colorado.....	39,339	159,019,000	14,908	88,820,000
Connecticut.....	4,886	18,403,000	2,713	16,264,000
Delaware.....	7,976	35,336,000	1,237	7,414,000
District of Columbia.....	³ 17,891	68,695,000	28,771	172,090,000
Florida.....	59,759	246,410,000	24,105	144,524,000
Georgia.....	87,536	331,778,000	33,617	200,742,000
Hawaii.....	41,615	152,769,000	18,759	131,773,000
Idaho.....	5,810	25,290,000	6,451	2,700,000
Illinois.....	49,079	194,350,000	30,096	178,797,000
Indiana.....	11,331	47,590,000	11,811	70,421,000
Iowa.....	1,479	6,220,000	548	3,254,000
Kansas.....	39,505	157,617,000	5,769	34,331,000
Kentucky.....	54,757	193,932,000	12,718	75,446,000
Louisiana.....	41,263	161,574,000	7,536	44,890,000
Maine.....	14,186	61,773,000	1,687	10,116,000
Maryland.....	³ 57,205	219,026,000	38,740	230,963,000
Massachusetts.....	37,052	149,675,000	26,940	160,741,000
Michigan.....	21,649	93,976,000	10,880	64,710,000
Minnesota.....	5,874	24,671,000	1,873	11,159,000
Mississippi.....	29,518	129,934,000	5,756	34,362,000
Missouri.....	31,384	121,814,000	14,756	87,762,000
Montana.....	8,618	38,257,000	1,252	7,479,000
Nebraska.....	18,481	81,248,000	4,354	25,937,000
Nevada.....	8,403	36,180,000	2,787	16,750,000
New Hampshire.....	9,264	39,915,000	10,314	61,872,000
New Jersey.....	47,198	181,285,000	27,014	160,517,000
New Mexico.....	22,363	94,226,000	11,454	68,679,000
New York.....	40,699	164,697,000	52,625	314,539,000
North Carolina.....	92,927	324,343,000	10,447	62,414,000
North Dakota.....	9,581	42,604,000	1,103	6,581,000
Ohio.....	20,400	88,143,000	38,643	231,683,000
Oklahoma.....	35,975	142,010,000	25,682	153,765,000
Oregon.....	4,790	20,888,000	3,590	21,331,000
Pennsylvania.....	15,161	57,118,000	69,509	416,668,000
Rhode Island.....	7,998	29,878,000	8,353	50,099,000
South Carolina.....	46,334	180,537,000	15,096	90,384,000
South Dakota.....	5,282	23,428,000	1,838	10,927,000
Tennessee.....	18,939	72,634,000	6,719	40,077,000
Texas.....	190,258	778,798,000	60,555	361,742,000
Utah.....	4,037	16,762,000	19,386	115,756,000
Vermont.....	448	1,919,000	64	382,000
Virginia.....	³ 93,387	348,074,000	79,647	477,413,000
Washington.....	64,529	250,619,000	23,485	140,395,000
West Virginia.....	542	2,137,000	861	5,098,000
Wisconsin.....	4,186	17,595,000	2,247	13,373,000
Wyoming.....	3,731	16,585,000	650	3,898,000
Undistributed.....	18,222	67,047,000		
Washington, D.C., metropolitan area.....	60,005	232,407,000	75,708	453,040,000
District of Columbia.....	³ 17,891	68,695,000	28,771	172,090,000
Maryland.....	³ 11,523	48,753,000	14,264	85,414,000
Virginia.....	³ 30,591	114,959,000	32,673	195,536,000

¹ Excludes naval personnel assigned to fleet units and to other afloat and mobile activities.² For number of personnel indicated in preceding column.³ Partly estimated.

Source: Directorate for Statistical Services, Office of Secretary of Defense, Sept. 27, 1962.

Supply systems inventories (table 5)

A breakdown of "Supply systems inventories" from fiscal years 1958 through 1962 shows that the value of stocks in peacetime operating, mobilization reserve, economic retention, and contingency retention have been relatively stable while the category of excess stocks has been reduced from \$10.4 billion to \$5.6 billion during the period.

Mobilization reserve

Mobilization reserve stocks were reported at \$10.725 billion as of June 30, 1962, broken down by military services as follows:

Army-----	\$6, 259, 471, 000
Navy-----	2, 222, 102, 000
Marine Corps-----	743, 824, 000
Air Force-----	1, 077, 958, 000
Defense Supply Agency-----	421, 245, 000
Total-----	¹ 10, 724, 600, 000

¹ Federal Real and Personal Property Inventory Report of the United States as of June 30, 1962, Committee on Government Operations, U.S. House of Representatives, 87th Cong., 2d sess., p. 132.

An analysis of the categories of stocks held in the mobilization reserves (27 percent of all supply systems inventories) shows substantial quantities of general supplies, vehicles of various kinds, subsistence, etc.⁷

Since the procurement, storage, and issue of mobilization reserve items constitutes a problem in the resolution of an effective agreement between the DOD and GSA, a carefully considered policy should be worked out as soon as possible especially for civilian-type items.

TABLE 5.—DOD supply systems inventories by inventory strata as of June 30 ¹

(Millions of dollars)

Total and inventory strata	1958	1959	1960	1961	1962
Total-----	46, 585	44, 203	41, 727	40, 537	40, 299
Unstratified-----	2, 440	3, 056	2, 083	1, 819	1, 837
Total stratified-----	44, 145	41, 147	39, 644	38, 717	38, 462
Peacetime operating ² -----	14, 538	15, 306	15, 657	14, 722	15, 601
Mobilization reserve ³ -----	12, 134	11, 530	10, 893	11, 030	10, 725
Economic retention ⁴ -----	5, 593	4, 703	6, 618	6, 343	5, 454
Contingency retention ⁵ -----	1, 050	1, 611	1, 361	1, 246	1, 040
Excess stocks ⁶ -----	10, 418	7, 146	5, 115	5, 377	5, 643

¹ Total inventories in this table do not include value of Navy shipboard supplies included in table 1.

² Peacetime operating stock is that portion of the total quantity of an item on hand which is required to equip and train the planned peacetime forces and support the scheduled establishment through the normal appropriation and lead-time periods.

³ Mobilization reserve materiel requirement: The quantity of an item required to be in the military supply system on M-day, in addition to quantities for peacetime needs, to support planned mobilization, to expand the materiel pipeline, and to sustain in training, combat, or noncombat operations prescribed forces until production by industry equals consumption.

⁴ Economic retention stock is that portion of the quantity in long supply which it has been determined will be retained for future peacetime issue of consumption as being more economical than future replenishment by procurement.

⁵ Contingency retention stock is that portion of the quantity in long supply of an obsolete or nonstandard item for which no programed requirements exist and which normally would be considered as excess stock, but which has been determined will be retained for possible military or defense contingencies.

⁶ Excess stock as reported herein is stock which is indicated to be above the sum of footnotes 2, 3, 4, and 5 above and for which specific determination as being within the needs of the holding activity has not been made or disposal action initiated.

Source: Annual reports of Committee on Government Operations, House of Representatives, on "Real and Personal Inventory of the U.S. Government."

⁷ Federal Real and Personal Property Inventory Report of the United States as of June 30, 1962, Committee on Government Operations, U.S. House of Representatives, 87th Cong., 2d sess., pp. 138-157.

SCOPE OF PROCUREMENT ACTIVITIES

Military procurement continues at a heavy rate with the net value of military actions amounting to \$27.8 billion in fiscal year 1962. This was an increase of \$3.5 billion over fiscal year 1961.

TABLE 6.—*Net value of military procurement actions in the United States and possessions, fiscal years 1951-62*

[Billions of dollars]

Fiscal year	Net value of military procurement actions	Fiscal year	Net value of military procurement actions	Fiscal year	Net value of military procurement actions
1951.....	31.9	1955.....	15.5	1959.....	23.9
1952.....	42.2	1956.....	18.2	1960.....	22.5
1953.....	28.4	1957.....	19.9	1961.....	24.3
1954.....	11.9	1958.....	22.8	1962.....	27.8

Source: "Military Prime Contract Awards and Subcontract Payments, July-September 1962," Office of the Secretary of Defense.

NET VALUE OF PROCUREMENT ACTIONS BY STATES (TABLE 7)

The breakdown of military procurement actions by States and the District of Columbia shows:

Percent of total:	Number of States	Percent of total:	Number of states
Over 20.....	1	3 to 4.....	2
10 to 15.....	1	2 to 3.....	6
5 to 10.....	1	1 to 2.....	9
4 to 5.....	4	0 to 1.....	27

TABLE 7.—*Net value of military procurement actions by States and fiscal years,¹ (fiscal years 1960, 1961, and 1962)*

[Amounts in thousands]

State	Fiscal year 1960		Fiscal year 1961		Fiscal year 1962	
	Amount	Percent	Amount	Percent	Amount	Percent
Total, United States ²	\$22,462,217	-----	\$24,304,677	-----	\$27,800,407	-----
Not distributed by State ³	2,055,411	-----	2,192,231	-----	2,761,717	-----
State totals ⁴	20,406,806	100.0	22,112,446	100.0	25,038,690	100.0
Alabama.....	103,371	.5	105,584	.5	154,419	.6
Alaska.....	78,649	.4	10,797	.4	63,320	.3
Arizona.....	168,974	.8	244,837	1.1	152,951	.6
Arkansas.....	10,891	.1	46,586	.2	84,798	.3
California.....	4,839,252	23.7	5,276,760	23.9	5,993,244	23.9
Colorado.....	246,749	1.2	465,904	2.1	565,279	2.3
Connecticut.....	838,535	4.1	1,018,500	4.6	1,213,067	4.8
Delaware.....	53,352	.3	28,180	.1	47,197	.2
District of Columbia.....	95,499	.5	149,551	.7	181,954	.7
Florida.....	489,803	2.4	492,654	2.2	645,478	2.6
Georgia.....	177,924	.9	300,529	1.4	337,478	1.4
Hawaii.....	48,971	.2	26,916	.1	31,875	.1
Idaho.....	46,630	.2	14,131	.1	26,121	.1
Illinois.....	385,053	1.9	437,250	2.0	531,008	2.1
Indiana.....	310,632	1.5	353,202	1.6	636,987	2.5
Iowa.....	147,443	.7	128,819	.6	179,153	.7
Kansas.....	573,563	2.8	538,687	2.4	393,507	1.6
Kentucky.....	32,741	.2	45,778	.2	43,510	.2
Louisiana.....	197,157	1.0	139,336	.6	244,036	1.0
Maine.....	32,216	.2	96,977	.4	79,585	.3
Maryland.....	515,887	2.5	527,591	2.4	469,491	1.9
Massachusetts.....	1,070,436	5.2	1,072,370	4.8	1,310,055	5.2
Michigan.....	600,947	2.9	590,480	2.7	677,786	2.7
Minnesota.....	192,884	.9	188,652	.9	297,306	1.2
Mississippi.....	46,946	.2	69,395	.3	100,220	.4
Missouri.....	336,668	1.7	337,500	1.5	545,553	2.2
Montana.....	27,058	.1	94,538	.4	31,264	.1
Nebraska.....	71,034	.4	51,123	.2	53,172	.2
Nevada.....	8,965	.0	8,850	.0	8,246	*
New Hampshire.....	72,272	.4	104,589	.5	58,926	.2
New Jersey.....	1,274,664	6.2	949,737	4.3	1,063,096	4.3
New Mexico.....	77,707	.4	63,540	.3	60,729	.2
New York.....	2,377,522	11.7	2,642,803	12.0	2,668,744	10.7
North Carolina.....	172,899	.9	237,196	1.1	268,990	1.1
North Dakota.....	8,683	.0	12,980	.1	99,627	.4
Ohio.....	907,068	4.4	1,004,245	4.5	1,063,214	4.3
Oklahoma.....	146,519	.7	123,433	.6	135,825	.5
Oregon.....	23,963	.1	27,626	.1	46,129	.2
Pennsylvania.....	671,314	3.3	804,389	3.6	952,058	3.8
Rhode Island.....	26,081	.1	25,292	.1	57,966	.2
South Carolina.....	31,314	.2	40,304	.2	65,212	.3
South Dakota.....	43,591	.2	27,626	.1	112,682	.5
Tennessee.....	109,396	.5	144,069	.7	183,794	.7
Texas.....	1,138,026	5.6	1,138,471	5.1	1,006,253	4.0
Utah.....	176,394	.9	349,611	1.6	298,596	1.2
Vermont.....	18,746	.1	16,176	.1	16,421	.1
Virginia.....	422,164	2.1	505,158	2.3	446,183	1.8
Washington.....	715,087	3.5	646,359	2.9	921,115	3.7
West Virginia.....	36,098	.2	61,884	.3	133,782	.5
Wisconsin.....	167,214	.8	221,749	1.0	258,735	1.0
Wyoming.....	41,754	.2	24,252	.1	22,551	.1

¹ See "Notes on Coverage" below.² Includes all contracts awarded for work performance in the United States, including its possessions, the Commonwealth of Puerto Rico, and other areas administered by the United States regardless of location of the procuring office.³ Includes contracts of less than \$10,000, all contracts awarded for work performance in the Commonwealth of Puerto Rico, U.S. possessions, and other areas administered by the United States, contracts which are in a classified location, and any intragovernmental contracts entered into overseas.⁴ Net value of contracts of \$10,000 or more for work in each State and the District of Columbia.

NOTES ON COVERAGE.—It is emphasized that data on prime contracts by State do not provide any direct indication as to the State in which the actual production work is done. For the majority of the contracts with manufacturers, the data reflect the location of the plant where the product will be finally processed and assembled. Construction contracts are shown for the State where the construction is to be performed. However, for some contracts with large companies with more than one plant and for contracts with service, wholesale, or other distribution firms, the location is usually the address of the contractor's main office.

More important is the fact that the reports refer to prime contracts only, and cannot in any way reflect the distribution of the very substantial amount of material and component fabrications and other subcontract work that may be done outside the State where final assembly or delivery takes place.

The report includes definitive contracts, and funded portions of letter contracts and letters of intent, job orders, task orders and purchase orders on industrial firms, and also includes interdepartmental purchases,

ONE HUNDRED COMPANIES AND THEIR SUBSIDIARY CORPORATIONS
LISTED ACCORDING TO NET VALUE OF MILITARY PRIME CONTRACT
AWARDS

Fiscal year 1962 (July 1961 to June 1962) and fiscal year 1961 (July 1960 to June 1961)

The 100 companies which received the largest dollar volume of military prime contracts of \$10,000 or more in fiscal year 1962 accounted for 72.3 percent of the U.S. total. This represented a decline of 1.9 percentage points from the 74.2 percent during fiscal year 1961, and was the lowest percentage obtained by a group of 100 top companies in the last 5 years. (Table 1 shows the figures by company for fiscal year 1962, and table 2 shows data for fiscal year 1961).

It may be seen from the following table that the decline occurred in the first 25 companies which received 4 percent less of the total in fiscal year 1962 than in the previous year whereas companies in the 25th to 100th positions obtained 2.1 percent more of the 1962 total.

Percent of U.S. total

Companies	Fiscal year 1958	Fiscal year 1959	Fiscal year 1960	Fiscal year 1961	Fiscal year 1962
1st.....	9.8	7.2	6.0	6.5	5.6
2d.....	6.4	5.2	5.1	5.2	4.7
3d.....	3.6	4.5	4.8	5.2	4.4
4th.....	3.5	1.1	4.6	4.1	4.0
5th.....	3.0	4.0	4.3	3.8	3.8
1st to 5th.....	26.3	25.0	24.8	24.8	22.5
6th to 10th.....	12.4	12.0	11.3	11.8	11.1
11th to 25th.....	19.1	17.6	17.4	18.2	17.2
1st to 25th.....	57.8	54.6	53.5	54.8	50.8
26th to 50th.....	9.1	10.7	11.3	11.0	12.6
51st to 75th.....	4.8	5.5	5.4	5.5	6.0
76th to 100th.....	2.5	3.0	3.2	2.9	2.9
1st to 100th.....	74.2	73.8	73.4	74.2	72.3

¹ Revised.

The decline in the 100-company percentage was attributable principally to a phasing down in some aircraft programs (e.g., B-58), and an increase in the procurement of equipment for the Army modernization program.

In fiscal year 1962, aircraft represented 21.5 percent of the Defense total compared to 19.5 percent in fiscal year 1961. Vehicles, conventional weapons, and ammunition programs accounted for 8.3 percent of the total in 1962 compared to 5.5 percent in 1961, and many of

made from or through other governmental agencies, such as those made through the General Services Administration. The data include upward or downward revisions and adjustments of \$10,000 or more, such as cancellations, price changes, supplemental agreements, amendments, etc.

The report does not include that part of open end or indefinite quantity contracts that has not been placed under specific purchase order, nor does it include that part of project orders (i.e., production directives to Government-owned and Government-operated facilities) which has not yet been translated into contracts with industrial firms.

The contract value data shown in this report differ from obligations data in Department of Defense fiscal reports on procurement and construction because (1) this report includes contract awards for services while the fiscal reports exclude obligations for this purpose; (2) contract data do not include obligations for project orders issued to military-owned and military-operated establishments, such as navy yards, unless and until those funds are used to finance contracts with private business firms or with other Government agencies; and (3) this contract report is limited to transactions within the United States whereas the fiscal reports include obligations on a worldwide basis.

Source: Office of the Secretary of Defense, Dec. 10, 1962.

these items were susceptible to production by relatively small companies.

Also responsible for the decrease in the 100-company percentage was the greater emphasis on the Department of Defense small business program, with the result that such concerns received 17.7 percent of the fiscal year 1962 total against 15.9 percent in fiscal year 1961. One of the methods used to attain this result was to utilize to a greater extent competitive bidding for aircraft replenishment parts which had previously been obtained from the aircraft producer.

It should be noted that the reduction in the top 100-company percentage would have been more pronounced were it not for mergers and acquisitions which occurred in fiscal year 1962. While it is not possible to measure the total effect of mergers and acquisitions precisely, the following examples indicate the importance of this factor.

New companies

<i>Name</i>	<i>Rank, fiscal year 1962</i>
Ford Motor.....	20
Ling-Temco-Vought.....	37
Litton Industries.....	46
Lear-Siegler.....	56

Merged companies

<i>Name</i>	<i>Rank, fiscal year 1961</i>
Ford.....	43
Ling-Temco.....	61
Litton Industries.....	--
Lear, Inc.....	60
Philco.....	31
Chance-Vought.....	36
Ingalls Shipbuilding.....	86
Siegler Corp.....	--

More than half of the companies on the fiscal year 1962 list were engaged in missile-space, aircraft, and electronics work, and the contract work of many of the companies involved more than one major contract category. Based on the category representing the largest dollar volume of contracts received by a company, there were 20 missile-space, 19 electronics, and 17 aircraft firms. Of the remaining 44 companies, 10 were petroleum refineries, 7 each were tank-automotive, ship, ammunition, and service companies, and 5 were construction firms and 1 was a rifle producer.

Indicative of the importance of educational and nonprofit institutions to the defense program is the fact that 5 such institutions are on the 100 company list. These are the Massachusetts Institute of Technology, Johns Hopkins University, Aerospace Corp., System Development Corp., and Mitre Corp.

There were four companies which received more than \$1 billion each in prime contract awards in fiscal year 1962. The companies and a brief description of their more important contract work are as follows:

The Lockheed Aircraft Corp. led the list for the first time and received \$1,419.5 million, or 5.6 percent of the total. In fiscal year 1961 this company was third with 5.2 percent of the total. The aircraft contracts included the C-140 jet transport, C-130 Hercules

turboprop jet transport, F-140 fighter jet, P-2V-7 Neptune piston-engine patrol bomber, and the P-3V-1 Electra advance jet version. It is a principal prime contractor for the POLARIS missile, the DISCOVERER series of polar-orbiting satellites, the AGENA space vehicle, and other space vehicles. Through its subsidiaries, the company received contracts for shipbuilding, electronics, and heavy construction.

General Dynamics Corp., after having been first on the lists for fiscal years 1959, 1960, and 1961, slipped to second place in fiscal year 1962 with 4.7 percent of the total, compared to 6.5 percent in the previous year. Its Electric Boat Division is a principal producer of nuclear submarines. The Astronautics Division developed and produced the Atlas intercontinental ballistic missile. Although no new contracts were received for B-58 bombers in fiscal year 1962, the Fort Worth division continued to obtain contracts for repair parts and components for this aircraft. Pomona division contracts included TERRIER and TARTAR surface-to-air missiles, the REDEYE man-carried anti-aircraft missile, and MAULER integrated battle defense system.

Boeing Co. was in third place (4.4 percent), up from fourth in fiscal year 1961. Boeing military research and production was almost entirely in aircraft and missiles. Projects included the C-135 troop transport, Chinook troop transport, and HRB-1 Sea Knight assault transport helicopters, BOMARC surface-to-air missile, MINUTEMAN intercontinental ballistic missile, DYNA-SOAR space glider, and SATURN booster system.

North American Aviation, Inc. (4 percent), was fourth in fiscal year 1962, down from second place in fiscal year 1961. Its prime contract work, also, is predominantly for aircraft and missiles, including the A-3J-1 Vigilante attack weapon system, the T-39 Sabreliner twin-jet utility plane, B-70 Valkyrie long-range strategic weapon system, the HOUND DOG air-to-surface missile, and guidance and ground checkout equipment for the MINUTEMAN missile.

The next four concerns, which received awards totaling over \$450 million up to \$1 billion, also were engaged principally in aircraft and missile work. General Electric Co. produces jet engines, as well as many electrical and electronics devices. Martin-Marietta Co., assembles the TITAN, PERSHING, and BULLPUP missiles, and produces ground support equipment for missiles. United Aircraft Corp. makes jet engines, helicopters, propellers, and electronic devices for aircraft. American Telephone & Telegraph Co., through its subsidiary, Western Electric Co., is a principal contractor for the NIKE series of missiles.

It has been noted in previous reports that a substantial part of the prime contract work of companies on the 100-company list is subcontracted to other concerns. About one-half of the military work of the large concerns is subcontracted, and over one-third of the amount subcontracted is paid to small business concerns.

INDEX OF 100 PARENT COMPANIES WHICH WITH THEIR SUBSIDIARIES RECEIVED THE LARGEST DOLLAR VOLUME OF MILITARY PRIME CONTRACT AWARDS IN FISCAL YEAR 1962

<i>Rank</i>	<i>Parent company</i>	<i>Rank</i>	<i>Parent company</i>
60.	Aerospace Corp.	50.	Kaman Aircraft Corp.
53.	American Bosch Arma Corp.	36.	Kiewit (Peter) Sons' Co.
24.	American Machine & Foundry Co.	74.	Laboratory for Electronics, Inc.
8.	American Telephone & Telegraph Co.	56.	Lear-Siegler, Inc.
89.	Aro, Inc.	37.	Ling-Temco-Vought, Inc.
16.	Avco Corp.	45.	Litton Industries, Inc.
65.	Bath Iron Works Corp.	1.	Lockheed Aircraft Corp.
19.	Bendix Corp.	55.	Magnavox Co.
44.	Bethlehem Steel Corp.	77.	Marquardt Corp.
98.	Blount Bros. Construction Co.	6.	Martin Marietta Corp.
3.	Boeing Co.	68.	Mason & Hangar—Silas Mason Co.
62.	Bowen-McLaughlin-York, Inc.	52.	Massachusetts Institute of Technology
48.	Burrughs Corp.	17.	McDonnell Aircraft Corp.
27.	Chrysler Corp.	38.	Minneapolis-Honeywell Regulator Co.
82.	Cities Service Co.	93.	Mitre Corp.
33.	Collins Radio Co.	61.	Morrison-Knudsen & Associates
49.	Continental Motors Corp.	88.	Motec Industries, Inc.
69.	Continental Oil Co.	86.	Motorola, Inc.
35.	Curtiss-Wright Corp.	25.	Newport News Shipbuilding & Dry Dock Co.
13.	Douglas Aircraft Co.	4.	North American Aviation, Inc.
71.	Du Pont (E. I.) de Nemours & Co.	32.	Northrop Corp.
63.	Eastman Kodak Co.	94.	Ogden Corp.
30.	F M C Corp.	64.	Olin Mathieson Chemical Corp.
85.	Fairchild Stratots Corp.	34.	Pan American World Airways, Inc.
76.	Flying Tiger Line, Inc.	91.	Phillips Petroleum Co.
20.	Ford Motor Co.	14.	Radio Corp. of America
67.	Garrett Corp.	11.	Raytheon Co.
2.	General Dynamics Corp.	15.	Republic Aviation Corp.
5.	General Electric Co.	79.	Richfield Oil Corp.
10.	General Motors Corp.	87.	Ryan Aeronautical Co.
57.	General Precision Equipment Corp.	90.	Sanders Associates, Inc.
40.	General Telephone & Electronics Corp.	58.	Shell Caribbean Petroleum Co.
12.	General Tire & Rubber Co.	59.	Socony Mobil Oil Co.
97.	Gilfillan Corp.	9.	Sperry Rand Corp.
51.	Goodyear Tire & Rubber Co.	41.	Standard Oil Co. of California
18.	Grumman Aircraft Engineering Corp.	80.	Standard Oil Co. (Indiana)
99.	Hallcrafters Co.	28.	Standard Oil Co. (New Jersey)
72.	Hardeman-Fischback	83.	System Development Corp.
78.	Harrington & Richardson	42.	Texaco, Inc.
95.	Harvey Aluminum, Inc.	96.	Texas Instruments, Inc.
66.	Hayes International Corp.	39.	Textron, Inc.
81.	Hazeltine Corp.	29.	Thiokol Chemical Corp.
26.	Hercules Powder Co.	43.	Thompson Ramo Wooldridge, Inc.
23.	Hughes Aircraft Co.	73.	Todd Shipyards Corp.
31.	International Business Machines Corp.	100.	Union Carbide Corp.
54.	International Harvester Co.	7.	United Aircraft Corp.
22.	International Telephone & Telegraph Corp.	92.	Universal American Corp.
70.	Johns Hopkins University	84.	Vitro Corp. of America
47.	Kaiser Industries Corp.	21.	Westinghouse Electric Corp.
75.	Kaiser - Raymond - Macco - Puget Sound	46.	White Motor Co.

TABLE I

100 COMPANIES AND THEIR SUBSIDIARIES LISTED ACCORDING TO
NET VALUE OF MILITARY PRIME CONTRACT AWARDS

Fiscal Year 1962

(1 July 1961 - 30 June 1962)

Rank	Companies	Millions of Dollars	Percent of U.S. Total	Cumulative Percent of U. S. Total
	U. S. TOTAL a/	\$25,588.4	100.0%	100.0%
	TOTAL, 100 COMPANIES AND THEIR SUBSIDIARIES b/	18,497.2	72.3	72.3
1.	LOCKHEED AIRCRAFT CORP.	1,383.9	5.5	
	Lockheed Air Terminal, Inc.	(-) 7.0	d/	
	Lockheed Aircraft International, Inc.	2.3	d/	
	Lockheed Electronics Co.	5.1	d/	
	Lockheed Propulsion Co.	3.2	d/	
	Puget Sound Bridge & Dry Dock Co.	32.0	0.1	
	Total	1,419.5	5.6	5.6
2.	GENERAL DYNAMICS CORP.	1,196.6	4.7	10.3
3.	BOEING CO.	1,132.8	4.4	14.7
4.	NORTH AMERICAN AVIATION, INC.	1,032.5	4.0	18.7
5.	GENERAL ELECTRIC CO.	975.9	3.8	22.5
6.	MARTIN MARIETTA CORP.	802.7	3.1	25.6
7.	UNITED AIRCRAFT CORP.	661.1	2.6	
	United Technology Corp.	1.6	d/	
	Total	662.7	2.6	28.2
8.	AMERICAN TELEPHONE & TELEGRAPH CO.	14.3	0.1	
	Chesapeake & Potomac Tel.Co.	3.0	d/	
	Illinois Bell Telephone Co.	0.1	d/	
	Mountain States Tel. & Tel. Co.	0.3	d/	
	New England Tel. & Tel. Co.	c/	d/	
	New Jersey Bell Tel. Co.	0.1	d/	
	New York Telephone Co.	c/	d/	
	Pacific Tel. & Tel. Co.	0.4	d/	
	Southern Bell Tel. & Tel. Co.	0.9	d/	
	Southwestern Bell Tel. Co.	0.2	d/	
	Teletype Corp.	13.3	0.1	
	Western Electric Co.	435.1	1.6	
	Total	467.7	1.8	30.0

TABLE 1 (Continued)

Rank	Companies	Millions of Dollars	Percent of U. S. Total	Cumulative Percent of U.S. Total
9.	SPERRY RAND CORP.	\$ 456.8	1.8	31.8
	Vickers, Inc.	8.8	d/	
	Total	<u>465.6</u>	<u>1.8</u>	
10.	GENERAL MOTORS CORP.	448.6	1.8	33.6
	Ethyl Corp. e/	0.3	d/	
	Frigidaire Sales Corp.	0.1	d/	
	Total	<u>449.0</u>	<u>1.8</u>	
11.	RAYTHEON Co.	405.0	1.6	35.2
	Machlett Laboratories, Inc.	1.6	d/	
	Sorenson & Co., Inc.	c/	d/	
	Trans-Sil Corp.	c/	d/	
	Total	<u>406.6</u>	<u>1.6</u>	
12.	GENERAL TIRE & RUBBER CO.	10.0	d/	36.6
	Aerojet-General Corp.	348.7	1.4	
	Aerojet-General Nucleonics	3.8	d/	
	Byers (A.M.) Co.	0.8	d/	
	Space General Corp.	2.8	d/	
	Stauffer-Aerojet Chemical Co.	c/	d/	
	Total	<u>366.1</u>	<u>1.4</u>	
13.	DOUGLAS AIRCRAFT CO.	365.3	1.4	38.0
	Astropower, Inc.	0.3	d/	
	Total	<u>365.6</u>	<u>1.4</u>	
14.	RADIO CORP. OF AMERICA	339.6	1.3	39.3
15.	REPUBLIC AVIATION CORP.	332.8	1.3	40.6
16.	AVCO CORP.	323.3	1.3	41.9
17.	McDONNELL AIRCRAFT CORP.	310.9	1.2	43.1
18.	GRUMMAN AIRCRAFT ENGINEERING CORP.	303.6	1.2	44.3
19.	BENDIX CORP.	285.0	1.1	45.4
	Bendix-Westinghouse Automotive Air Brake Co.	0.3	d/	
	Cleveland Instrument Co.	0.5	d/	
	Micrometrical Mfg. Co.	c/	d/	
	Sheffield Corp.	0.1	d/	
	Total	<u>285.9</u>	<u>1.1</u>	
20.	FORD MOTOR CO.	110.1	0.4	46.5
	Philco Corp.	159.0	0.7	
	Total	<u>269.1</u>	<u>1.1</u>	

TABLE 1 (Continued)

Rank	Companies	Millions of Dollars	Percent of U.S. Total	Cumulative Percent of U.S. Total
21.	WESTINGHOUSE ELECTRIC CORP.	\$ 245.7	1.0	47.5
	Thermo King Corp.	0.3	d/	
	Total	246.0	1.0	
22.	INTERNATIONAL TELEPHONE & TELEGRAPH CORP.	166.1	0.7	48.5
	Federal Electric Corp.	64.3	0.3	
	International Electric Corp.	11.6	d/	
	Jennings Radio Mfg. Co.	0.4	d/	
	Kuthe Laboratories, Inc.	0.9	d/	
	Mackay Radio & Telegraph Co.	0.1	d/	
	Royal Electric Corp.	e/	d/	
	Suprenant Mfg. Co.	0.2	d/	
	Total	243.6	1.0	
23.	HUGHES AIRCRAFT CO.	234.2	0.9	49.4
24.	AMERICAN MACHINE & FOUNDRY CO.	187.0	0.7	50.1
	Beaird (J. B.) Co., Inc.	0.2	d/	
	Cuno Engineering Co.	0.1	d/	
	Total	187.3	0.7	
25.	NEWPORT NEWS SHIPBUILDING & DRY DOCK CO.	185.0	0.7	50.8
26.	HERCULES POWDER CO.	181.6	0.7	51.5
27.	CHRYSLER CORP.	181.5	0.7	52.2
28.	STANDARD OIL CO. (NEW JERSEY)	0.0	0.0	52.9
	Esso International, Inc.	103.4	0.4	
	Esso Research & Engineering Co.	2.4	d/	
	Esso Standard Eastern, Inc.	5.5	d/	
	Ethyl Corp. e/	0.3	d/	
	Gilbert & Barker Mfg. Co.	e/	d/	
	Humble Oil & Refining Co.	68.3	0.3	
	Jersey Production Research Co.	0.1	d/	
	National Plastic Products Co.	0.1	d/	
Total	180.1	0.7		
29.	THICKOL CHEMICAL CORP.	178.2	0.7	53.6
	Shawnee Industries, Inc.	0.1	d/	
	Total	178.3	0.7	
30.	F M C CORP.	160.4	0.6	54.2
	Chiksan Co.	e/	d/	
	Total	160.4	0.6	

TABLE 1 (Continued)

Rank	Companies	Millions of Dollars	Percent of U.S. Total	Cumulative Percent of U.S. Total
31.	INTERNATIONAL BUSINESS MACHINES CORP.	\$ 154.9	0.6	
	Service Bureau Corp.	0.6	$\frac{d}{d}$	
	Total	<u>155.5</u>	<u>0.6</u>	54.8
32.	NORTROP CORP.	128.9	0.5	
	Page Communications Engineers, Inc.	23.6	$\frac{0.1}{0.6}$	
	Total	<u>152.5</u>	<u>0.6</u>	55.4
33.	COLLINS RADIO CO.	150.1	0.6	56.0
34.	PAN AMERICAN WORLD AIRWAYS, INC.	146.7	0.6	56.6
35.	CURTISS-WRIGHT CORP.	144.6	0.6	
	Abrams Instrument Corp.	$\frac{c}{d}$	$\frac{d}{d}$	
	Redel, Inc.	$\frac{c}{d}$	$\frac{d}{d}$	
	Total	<u>144.6</u>	<u>0.6</u>	57.2
36.	KLEWIT (PETER) SONS' CO.	142.7	0.6	57.8
37.	LING-TEMCO-VOUGHT, INC.	93.5	0.4	
	Altec Lansing Corp.	0.2	$\frac{d}{d}$	
	Continental Electronics Mfg.Co.	1.0	$\frac{d}{d}$	
	F F & M Electronics	1.8	$\frac{d}{d}$	
	Kentron Hawaii, Ltd.	0.1	$\frac{d}{d}$	
	Temco Electronics & Missile Co.	35.5	0.1	
	University Loudspeakers, Inc.	1.3	$\frac{d}{d}$	
	Total	<u>133.4</u>	<u>0.5</u>	58.3
38.	MINNEAPOLIS-HONEYWELL REGULATOR CO.	127.5	0.5	58.8
39.	TEXTRON, INC.	3.8	$\frac{d}{d}$	
	Bell Aerospace Corp.	111.7	0.5	
	Nuclear Metals, Inc.	1.1	$\frac{d}{d}$	
	Textron Electronics, Inc.	0.7	$\frac{d}{d}$	
	Townsend Co.	0.1	$\frac{d}{d}$	
	Vita-Var Corp.	$\frac{c}{d}$	$\frac{d}{d}$	
	Total	<u>117.4</u>	<u>0.5</u>	59.3
40.	GENERAL TELEPHONE & ELECTRONICS CORP.	0.1	$\frac{d}{d}$	
	Automatic Electric Sales Corp.	2.8	$\frac{d}{d}$	
	General Telephone & Electronics Laboratories, Inc.	1.0	$\frac{d}{d}$	
	Lenkurt Electric Co., Inc.	5.6	$\frac{d}{d}$	
	Sylvania Electric Products, Inc.	106.8	0.5	
	Total	<u>116.3</u>	<u>0.5</u>	59.8

TABLE 1 (Continued)

Rank	Companies	Millions of Dollars	Percent of U.S. Total	Cumulative Percent of U. S. Total
41.	STANDARD OIL COMPANY OF CALIFORNIA	\$ 59.9	0.2	
	American Bitumuls & Asphalt Co.	0.1	d/	
	California Chemical Co.	0.1	d/	
	California Oil Co.	15.5	0.1	
	California Research Corp.	0.1	d/	
	Caltex Oil Products Co. <u>d/</u>	37.7	0.2	
	Standard Oil Co. of Kentucky	1.8	d/	
	Total	<u>115.2</u>	<u>0.5</u>	60.3
42.	TEXACO, INC.	32.2	0.1	
	Caltex Oil Products Co. <u>f/</u>	37.7	0.2	
	Jefferson Chemical Co.	0.1	d/	
	Paragon Oil Co.	1.0	d/	
	Texaco (Brazil), Inc.	0.1	d/	
	Texaco Experiment, Inc.	0.7	d/	
	Texas Export, Inc.	15.2	d/	
	Texas Puerto Rico, Inc.	1.6	d/	
	Texas Trinidad, Inc.	19.4	0.1	
	Total	<u>108.0</u>	<u>0.4</u>	60.7
43.	THOMPSON-RAMO-WOOLDRIDGE, Inc.	39.2	0.2	
	Good-All Electric Mfg. Co.	0.2	d/	
	Magna Products, Inc.	0.4	d/	
	Pacific Semiconductors, Inc.	0.7	d/	
	Radio Condenser Co.	2.3	d/	
	Radio Industries, Inc.	0.1	d/	
	Space Technology Laboratories, Inc.	62.8	0.2	
	Total	<u>105.7</u>	<u>0.4</u>	61.1
44.	BETHLEHEM STEEL CORP.	0.0	0.0	
	Bethlehem Steel Co.	99.9	0.4	
	Bethlehem Steel Export Corp.	c/	d/	
	Total	<u>99.9</u>	<u>0.4</u>	61.5
45.	LITTON INDUSTRIES, INC.	4.5	d/	
	Aero Service Corp.	0.5	d/	
	Airtron, Inc.	0.2	d/	
	Ingalls Shipbuilding Corp.	58.5	0.3	
	Litton Electron Tube Corp.	7.4	d/	
	Litton Systems, Inc.	17.2	0.1	
	Total	<u>88.3</u>	<u>0.4</u>	61.9
46.	WHITE MOTOR CO.	87.4	0.3	
	Oliver Corp.	c/	d/	
	Total	<u>87.4</u>	<u>0.3</u>	62.2

TABLE 1 (Continued)

Rank	Companies	Millions of Dollars	Percent of U. S. Total	Cumulative Percent of U.S. Total
47.	KAISER INDUSTRIES CORP.	0.1	d/	
	Kaiser (Henry J.) Co.	0.8	d/	
	Kaiser Steel Corp.	1.2	d/	
	National Steel & Shipbuilding Co.	17.6	d/	
	Willys Motors, Inc.	67.4	0.3	
	Total	87.1	0.3	62.5
48.	BURROUGHS CORP.	85.4	0.3	
	Burroughs Control Corp.	1.4	d/	
	Total	86.8	0.3	62.8
49.	CONTINENTAL MOTORS CORP.	72.2	0.3	
	Continental Aviation & Engineering Corp.	13.3	d/	
	Gray Marine Motor Co.	1.1	d/	
	Wisconsin Motor Corp.	c/	d/	
	Total	86.6	0.3	63.1
50.	KAMAN AIRCRAFT CORP.	83.8	0.3	63.4
51.	GOODYEAR TIRE & RUBBER CO.	26.3	0.1	
	Goodyear Aircraft Corp.	56.8	0.2	
	Kelly Springfield Tire Co.	0.1	d/	
	Total	83.2	0.3	63.7
52.	MASSACHUSETTS INSTITUTE OF TECHNOLOGY	82.1	0.3	64.0
53.	AMERICAN BOSCH ARMA CORP.	81.4	0.3	64.3
54.	INTERNATIONAL HARVESTER CO.	79.3	0.3	
	Hough (Frank G.) Co.	1.4	d/	
	Macleod & Co.	c/	d/	
	Solar Aircraft Co.	0.1	d/	
	Total	80.8	0.3	64.6
55.	MAGNAVOX CO.	73.2	0.3	64.9
56.	LEAR-SIEGLER, INC.	71.2	0.3	
	Olympic Radio & Television Sales Corp.	0.1	d/	
	Rett Electronics, Inc.	1.8	d/	
	Total	73.1	0.3	65.2
57.	GENERAL PRECISION EQUIPMENT CORP.	0.0	d/	
	General Precision, Inc.	69.2	0.3	
	Graflex, Inc.	1.1	d/	
	Shand & Jurs Co.	c/	d/	
	Strong Electric Corp.	0.2	d/	
	Total	70.5	0.3	65.5

TABLE 1 (Continued)

Rank	Companies	Millions of Dollars	Percent of U.S. Total	Cumulative Percent of U.S. Total
58.	SHELL CARIBBEAN PETROLEUM CO. International Lubricant Corp. Shell Oil Co. Total	\$ 32.8 1.1 33.5 <u>67.4</u>	0.1 d/ 0.2 0.3	65.8
59.	SOCONY MOBIL OIL CO.	65.8	0.3	66.1
60.	AEROSPACE CORP.	63.4	0.3	66.4
61.	MORRISON-KNUDSEN & ASSOCIATES <u>g/</u>	61.0	0.2	66.6
62.	BOWEN-McLAUGHLIN-YORK, INC.	59.0	0.2	66.8
63.	EASTMAN KODAK CO. Eastman Chemical Products, Inc. Eastman Kodak Stores, Inc. Recordak Corp. Total	54.4 0.2 0.3 0.5 <u>55.4</u>	0.2 d/ d/ d/ 0.2	67.0
64.	OLIN MATHIESON CHEMICAL CORP.	53.3	0.2	67.2
65.	BATH IRON WORKS CORP. Hyde Windlass Co. Total	50.4 0.8 <u>51.2</u>	0.2 d/ 0.2	67.4
66.	HAYES INTERNATIONAL CORP.	51.0	0.2	67.6
67.	GARRETT CORP.	46.7	0.2	67.8
68.	MASON & HANGER - SILAS MASON CO.	44.3	0.2	68.0
69.	CONTINENTAL OIL CO. Douglas Oil Co. Malco Products, Inc. Westcott Oil Corp. Western Oil & Fuel Co. Total	35.9 1.0 6.1 e/ 1.2 <u>44.2</u>	0.2 d/ d/ d/ d/ 0.2	68.2
70.	JOHNS HOPKINS UNIVERSITY	44.0	0.2	68.4
71.	Du PONT (E. I.) De NEMOURS & CO. Remington Arms Co. Total	8.1 34.1 <u>42.2</u>	d/ 0.2 0.2	68.6
72.	HARDEMAN-FISCHBACK <u>h/</u>	40.9	0.2	68.8

TABLE 1 (Continued)

Rank	Companies	Millions of Dollars	Percent of U.S. Total	Cumulative Percent of U.S. Total
73.	TODD SHIPYARDS CORP.	\$ 40.4	0.2	69.0
74.	LABORATORY FOR ELECTRONICS, INC. Keleket X-Ray Corp.	40.3 c/	0.2 d/	
	Total	40.3	0.2	69.2
75.	KAISER-RAYMOND-MACCO-PUGET SOUND 1/	39.7	0.2	69.4
76.	FLYING TIGER LINE, INC.	39.1	0.2	69.6
77.	MARQUARDT CORP.	38.8	0.2	69.8
78.	HARRINGTON & RICHARDSON, INC.	38.5	0.2	70.0
79.	RICHFIELD OIL CORP. American Mineral Spirits Co.	38.3 0.1	0.2 d/	
	Total	38.4	0.2	70.2
80.	STANDARD OIL CO. (INDIANA) American Oil Co. Amoco Chemicals Corp.	0.0 34.0 2.8	0.0 0.1 d/	
	Total	36.8	0.1	70.3
81.	HAZELTINE CORP.	36.0	0.1	70.4
82.	CITIES SERVICE CO. Cities Service Gas Co. Cities Service Oil Co.	0.0 0.5 35.3	0.0 d/ 0.1	
	Total	35.8	0.1	70.5
83.	SYSTEM DEVELOPMENT CORP.	35.1	0.1	70.6
84.	VITRO CORP. OF AMERICA	35.0	0.1	70.7
85.	FAIRCHILD STRATOS CORP.	35.0	0.1	70.8
86.	MOTOROLA, INC. Dahlberg Co. Motorola Aviation Electronics, Inc. Motorola Communications & Electronics, Inc. Motorola Overseas Corp. Motorola Semiconductor Products, Inc.	30.3 0.5 0.1 2.5 c/ 0.1	0.1 d/ d/ d/ d/ d/	
	Total	33.5	0.1	70.9
87.	RYAN AERONAUTICAL CO.	33.4	0.1	71.0

TABLE 1 (Continued)

Rank	Companies	Millions of Dollars	Percent of U.S. Total	Cumulative Percent of U.S. Total
88.	MOTEC INDUSTRIES, INC.	\$ 33.1	0.1	71.1
89.	ARO, INC.	32.8	0.1	71.2
90.	SANDERS ASSOCIATES, INC.	32.1	0.1	71.3
91.	PHILLIPS PETROLEUM CO.	32.0	0.1	71.4
92.	UNIVERSAL AMERICAN CORP.	0.0	0.0	
	Amron Corp.	16.8	0.1	
	Hardeman (Paul), Inc.	14.0	$\frac{d}{a}$	
	Norma-Hoffman Bearings Corp.	0.1	$\frac{d}{a}$	
	Total	<u>31.9</u>	<u>0.1</u>	71.5
93.	MITRE CORP.	30.2	0.1	71.6
94.	OGDEN CORP.	0.0	0.0	
	Avondale Shipyards, Inc.	30.2	0.1	
	Commercial Filters Corp.	$\frac{c}{e}$	$\frac{d}{a}$	
	Total	<u>30.2</u>	<u>0.1</u>	71.7
95.	HARVEY ALUMINUM, INC.	7.9	$\frac{d}{a}$	
	Harvey Aluminum Sales, Inc.	21.1	<u>0.1</u>	
	Total	<u>29.0</u>	<u>0.1</u>	71.8
96.	TEXAS INSTRUMENTS, INC.	29.0	0.1	
	Metals & Controls, Inc.	$\frac{c}{e}$	$\frac{d}{a}$	
	Total	<u>29.0</u>	<u>0.1</u>	71.9
97.	GILFILLAN CORP.	28.9	0.1	72.0
98.	BLOUNT BROTHERS CONSTRUCTION CO.	28.8	0.1	72.1
99.	HALLICRAFTERS CO.	25.4	0.1	
	Manson Laboratories, Inc.	3.3	$\frac{d}{a}$	
	Total	<u>28.7</u>	<u>0.1</u>	72.2
100.	UNION CARBIDE CORP.	27.2	0.1	72.3

TABLE 1 (Continued)

FOOTNOTES:

a/ Net value of new procurement actions minus cancellations, terminations and other credit transactions. The data include debit and credit procurement actions of \$10,000 or more, under military supply, service and construction contracts for work in the U. S.; plus awards to listed companies and other identifiable U. S. companies for work overseas.

Procurement actions include definitive contracts, the obligated portions of letter of intent and letter contracts, purchase orders, job orders, task orders, delivery orders, and any other orders against existing contracts. The data do not include that part of open-end or indefinite quantity contracts that have not been translated into specific orders on business firms. The data do not include purchase commitments or pending cancellations that have not yet become mutually binding agreements between the government and the company.

b/ The assignment of subsidiaries to parent companies is based on stock ownership of 50% or more by the parent company, as indicated by data published in standard industrial reference sources. The company totals do not include contracts made by other U. S. Government agencies and financed with Department of Defense funds, or contracts awarded in foreign nations through their respective governments. The company names and corporate structures are those in effect as of 30 June 1962. Only those subsidiaries are shown for which procurement actions have been reported.

c/ Less than \$50,000.

d/ Less than 0.05%.

e/ Stock ownership is equally divided between General Motors Corp. and Standard Oil Co. of New Jersey; half of the total military awards is shown under each of the parent companies.

f/ Stock ownership is equally divided between Standard Oil Co. of California and Texaco, Inc.; half of the total of military awards is shown under each of the parent companies.

g/ A joint venture of Morrison-Knudsen Co., Inc., Paul Hardeman, Inc., Perini Corp., and C. H. Leavell & Co.

h/ A joint venture of Paul Hardeman, Inc., and Fischback and Moore, Inc.

i/ A joint venture of Henry J. Kaiser Co., Raymond International, Inc., Macco Corp., and Puget Sound Bridge & Dry Dock Co.

INDEX OF 100 PARENT COMPANIES WHICH WITH THEIR SUBSIDIARIES RECEIVED THE
LARGEST DOLLAR VOLUME OF MILITARY PRIME CONTRACT AWARDS IN FISCAL YEAR 1961

Rank	Parent Company	Rank	Parent Company
75.	Aerospace Corp.	85.	Laboratory for Electronics, Inc.
35.	American Bosch Arms Corp.	60.	Leas, Inc.
30.	American Machine & Foundry Co.	61.	Ling-Temco Electronics, Inc.
8.	American Telephone & Telegraph Co.	3.	Lockheed Aircraft Corp.
97.	Arc, Inc.	79.	Magnevox Co.
21.	Avco Corp.	71.	Marine Transport Lines
46.	Bath Iron Works Corp.	98.	Margardt Corp.
20.	Bendix Corp.	6.	Martin Co.
44.	Bethlehem Steel Corp.	73.	Mason & Hanger - Silas Mason Co.
4.	Boeing Co.	41.	Massachusetts Institute of Technology
33.	Burroughs Corp.	23.	McDonnell Aircraft Corp.
36.	Chance Vought Corp.	88.	Midland Constructors, Inc.
27.	Chrysler Corp.	40.	Minneapolis-Honeywell Regulator Co.
37.	Collins Radio Co.	62.	Morrison-Knudsen Co., Inc.
49.	Continental Motors Corp.	100.	Motorola, Inc.
78.	Continental Oil Co.	18.	Newport News Shipbuilding & Dry Dock Co.
93.	Cook Electric Co.	2.	North American Aviation, Inc.
47.	Curtiss-Wright Corp.	83.	Northern Pump Co.
14.	Douglas Aircraft Co.	28.	Northrop Corp.
66.	du Pont (E. I.) de Nemours & Co.	59.	Olin Mathieson Chemical Corp.
70.	Eastman Kodak Co.	29.	Pan American World Airways, Inc.
64.	Eby (Martin K.) Construction Co.	31.	Phileo Corp.
38.	F M C Corp.	10.	Radio Corp. of America
69.	Fairchild Stratos Corp.	15.	Raytheon Co.
91.	Firestone Tire & Rubber Co.	16.	Republic Aviation Corp.
74.	Fluor Corp., Ltd.	76.	Richfield Oil Corp.
43.	Ford Motor Co.	65.	Ryan Aeronautical Co.
54.	Fuller (G. A.) and Webb (Del. E.)	52.	Sanders Associates, Inc.
82.	Fuller-Webb-Hardeman	57.	Shell Caribbean Petroleum Co.
56.	Garrett Corp.	96.	Sinclair Oil Corp.
1.	General Dynamics Corp.	58.	Socoxy Mobil Oil Co.
5.	General Electric Co.	9.	Sperry Rand Corp.
19.	General Motors Corp.	80.	Standard Kollman Industries, Inc.
42.	General Precision Equipment Corp.	34.	Standard Oil Co. of California
55.	General Telephone & Electronics Corp.	81.	Standard Oil Co. (Indiana)
17.	General Tire & Rubber Co.	26.	Standard Oil Co. (New Jersey)
53.	Goodyear Tire & Rubber Co.	72.	System Development Corp.
22.	Grumman Aircraft Engineering Corp.	39.	Tamco, Inc.
48.	Hallcrafters. Co.	99.	Tecon Instruments, Inc.
87.	Hazeltine Corp.	50.	Textron, Inc.
32.	Hercules Powder Co.	24.	Thiokol Chemical Corp.
11.	Hughes Aircraft Co.	45.	Thompson Ramo Wooldridge, Inc.
86.	Ingalls Iron Works Co.	67.	Todd Shipyards Corp.
12.	International Business Machines Corp.	7.	United Aircraft Corp.
51.	International Harvester Co.	94.	Universal American Corp.
25.	International Telephone & Telegraph Corp.	90.	Vitro Corp. of America
63.	Johns Hopkins University	95.	Westinghouse Air Brake Co.
92.	Jones-Peer-Winkelman	13.	Westinghouse Electric Corp.
68.	Kaman Aircraft Corp.	89.	White Motor Co.
77.	Kewanee Oil Co.		
84.	Keystone Shipping Co.		

TABLE 2
100 COMPANIES AND THEIR SUBSIDIARIES LISTED ACCORDING TO
NET VALUE OF MILITARY PRIME CONTRACT AWARDS

Fiscal Year 1961

(1 July 1960 - 30 June 1961)

Rank	Companies	Millions of Dollars	Percent of U.S. Total	Cumulative Percent of U.S. Total
	U. S. TOTAL a/	<u>\$22,693.1</u>	100.0%	100.0%
	TOTAL, 100 COMPANIES AND THEIR SUBSIDIARIES b/	<u>16,841.9</u> r/	<u>74.2</u> r/	<u>74.2</u> r/
1.	GENERAL DYNAMICS CORP. Freeman Coal Mining Corp. Total	1,460.5 c/ <u>1,460.5</u> r/	6.5 d/ <u>6.5</u> r/	6.5 r/
2.	NORTH AMERICAN AVIATION, INC.	1,197.4	5.2	11.7
3.	LOCKHEED AIRCRAFT CORP. Grand Central Rocket Co. Lockheed Air Terminal, Inc. Lockheed Aircraft International, Inc. Lockheed Aircraft Service, Inc. Lockheed Electronics, Co. Puget Sound Bridge & Dry Dock Co. Total	1,133.0 1.5 0.7 6.9 20.2 10.0 2.9 <u>1,175.2</u>	5.0 d/ d/ d/ 0.1 0.1 d/ <u>5.2</u>	16.9
4.	BOEING CO. Allied Research Associates Total	918.3 1.5 <u>919.8</u>	4.1 d/ <u>4.1</u>	21.0
5.	GENERAL ELECTRIC CO. International General Electric Puerto Rico, Inc. Total	874.6 c/ <u>874.6</u>	3.8 d/ <u>3.8</u>	24.8
6.	MARTIN CO. (THE)	691.8	3.1	27.9
7.	UNITED AIRCRAFT CORP. United Technology Corp. Total	624.6 0.9 <u>625.5</u>	2.7 d/ <u>2.7</u>	30.6
8.	AMERICAN TELEPHONE & TELEGRAPH CO. Chesapeake & Potomac Tel. Co. Teletype Corp. Western Electric Co. Total	7.1 1.1 8.1 534.3 <u>550.6</u>	d/ d/ 0.1 2.4 <u>2.5</u>	33.1

TABLE 2 (Continued)

Rank	Companies	Millions of Dollars	Percent of U.S. Total	Cumulative Percent of U.S. Total
9.	SPERRY RAND CORP	\$401.7	1.8	
	Vickers, Inc.	6.3	d/	
	Total	408.0	1.8	34.9
10.	RADIO CORP. OF AMERICA	392.3	1.7	36.6
11.	HUGHES AIRCRAFT CO.	331.2	1.5	38.1
12.	INTERNATIONAL BUSINESS MACHINES CORP.	329.4	1.4	
	Service Bureau Corp.	0.6	d/	
	Total	330.0	1.4	39.5
13.	WESTINGHOUSE ELECTRIC CORP.	307.6	1.4	
	Bryant Electric Co.	0.1	d/	
	Total	307.7	1.4	40.9
14.	DOUGLAS AIRCRAFT CO.	307.4	1.4	
	Astropower, Inc.	c/	d/	
	Total	307.4	1.4	42.3
15.	RAYTHEON CO.	303.7	1.3	
	Machlett Laboratories, Inc.	1.1	d/	
	Sorenson & Co., Inc.	0.1	d/	
	Total	304.9	1.3	43.6
16.	REPUBLIC AVIATION CORP.	295.7	1.3	44.9
17.	GENERAL TIRE & RUBBER CO.	25.9	0.1	
	Aerojet General Corp.	261.7	1.2	
	Aerojet General Nucleonics	0.8	d/	
	Byers (A.M.) Co.	0.5	d/	
	Space Electronics Corp.	0.9	d/	
	Stauffer-Aerojet Chemical Co.	0.4	d/	
	Total	290.2	1.3	46.2
18.	NEWPORT NEWS SHIPBUILDING & DRY DOCK CO.	290.2	1.3	47.5
19.	GENERAL MOTORS CORP.	280.2	1.2	
	Ethyl Corp. e/	0.5	d/	
	Frigidaire Sales Corp.	1.1	d/	
	Total	281.8	1.2	48.7
20.	BENDIX CORP.	266.4	1.1	
	Bendix-Westinghouse Automotive Air Brake Co.	0.1	d/	
	Cleveland Instrument Co.	c/	d/	
	Sheffield Corp.	0.3	1.1	
	Total	266.8	1.1	49.8

TABLE 2 (Continued)

Rank	Companies	Millions of Dollars	Percent of U.S. Total	Cumulative Percent of U.S. Total
21.	AVCO CORP.	\$251.6	1.1	50.9
22.	GRUMMAN AIRCRAFT ENGINEERING CORP.	<u>237.8</u>	1.1	
	Dynamic Development, Inc.	0.1	a/	
	Pearson Corp.	0.1	a/	
	Total	<u>238.0</u>	<u>1.1</u>	52.0
23.	MCDONNELL AIRCRAFT CORP.	219.9	1.0	53.0
24.	THICKOL CHEMICAL CORP.	210.0	0.9	53.9
25.	INTERNATIONAL TELEPHONE & TELEGRAPH CORP.	143.9	0.6	
	Federal Electric Corp.	55.8	0.3	
	International Electric Corp.	0.1	a/	
	Jennings Radio Mfg. Co.	0.2	a/	
	Kuthe Laboratories, Inc.	1.3	a/	
	Mackay Radio & Telegraph Co.	0.1	a/	
	Royal Electric Corp.	0.1	a/	
	Suprenant Mfg. Co.	0.1	a/	
	Total	<u>201.6</u>	<u>0.9</u>	54.8
26.	STANDARD OIL CO. (NEW JERSEY)	0.0	0.0	
	Esso International, Inc.	87.4	0.4	
	Esso Research & Engineering Co.	2.2	a/	
	Ethyl Corp. e/	0.4	a/	
	Gilbert & Barker Mfg. Co.	c/	a/	
	Humble Oil & Refining Co.	72.7	0.3	
	Jersey Production Research Co.	0.2	a/	
	Standard-Vacuum Oil Co. f/	4.7	a/	
	Total	<u>167.7</u>	<u>0.7</u>	55.5
27.	CHRYSLER CORP.	158.2	0.7	56.2
28.	NORTHROP CORP.	144.8	0.6	
	Page Communications Engineers, Inc.	10.8	0.1	
	Total	<u>155.6</u>	<u>0.7</u>	56.9
29.	PAN AMERICAN WORLD AIRWAYS, INC.	127.4	0.6	
	Pan American-Grace Airways, Inc.	c/	a/	
	Total	<u>127.4</u>	<u>0.6</u>	57.5
30.	AMERICAN MACHINE & FOUNDRY CO.	119.8	0.5	
	Beaird (J. B.) & Co.	c/	a/	
	Total	<u>119.8</u>	<u>0.5</u>	58.0
31.	PHILCO CORP.	118.8	0.5	58.5

TABLE 2 (Continued)

Rank	Companies	Millions of Dollars	Percent of U.S. Total	Cumulative Percent of U.S. Total
32.	HERCULES POWDER CO.	\$117.0	0.5	59.0
33.	BURROUGHS CORP.	107.8	0.5	
	Control Instrument Co., Inc.	3.7	d/	
	Total	111.5	0.5	59.5
34.	STANDARD OIL CO. OF CALIFORNIA	65.5	0.3	
	American Bitumuls & Asphalt Co.	c/	d/	
	California Oil Co.	11.0	0.1	
	California Research Corp.	0.3	d/	
	California Tanker Co.	c/	d/	
	California Texas Oil Corp. g/	32.6	0.1	
	Total	109.4	0.5	60.0
35.	AMERICAN BOSCH ARMA CORP.	107.6	0.5	60.5
36.	CHANCE VOUGHT CORP.	102.5	0.4	60.9
37.	COLLINS RADIO CO.	58.7	0.2	
	Alpha Corp.	35.2	0.2	
	Communication Accessories Corp.	0.1	d/	
	Total	94.0	0.4	61.3
38.	F M C Corp.	87.9	0.4	61.7
39.	TEXACO, INC.	27.0	0.1	
	California Texas Oil Corp. g/	32.6	0.2	
	Paragon Oil Co.	2.2	d/	
	Texaco (Brazil), Inc.	0.2	d/	
	Texaco Experiment, Inc.	0.3	d/	
	Texaco Puerto Rico, Inc.	1.9	d/	
	Texaco Trinidad, Inc.	5.7	d/	
	Texas Petroleum Co.	15.6	0.1	
	Total	85.5	0.4	62.1
40.	MINNEAPOLIS-HONEYWELL REGULATOR CO.	85.5	0.4	62.5
41.	MASSACHUSETTS INSTITUTE OF TECHNOLOGY	82.5	0.4	62.9
42.	GENERAL PRECISION EQUIPMENT CORP.	0.0	0.0	
	GPE Controls, Inc.	0.2	d/	
	General Precision, Inc.	80.9	0.4	
	Graflex, Inc.	0.2	d/	
	Strong Electric Corp.	c/	d/	
	Total	81.3	0.4	63.3

TABLE 2 (Continued)

Rank	Companies	Millions of Dollars	Percent of U.S. Total	Cumulative Percent of U.S. Total
43.	FORD MOTOR CO.	\$81.0	0.4	63.7
44.	BETHLEHEM STEEL CORP.	0.0	0.0	
	Bethlehem Steel Co.	79.4	0.3	
	Bethlehem Steel Export Corp.	c/	d/	
	Total	79.4	0.3	64.0
45.	THOMPSON RAMO WOOLDRIDGE, INC.	24.3	0.1	
	Good-All Electric Mfg. Co.	0.2	d/	
	Pacific Semiconductors, Inc.	0.8	d/	
	Space Technology Laboratories, Inc.	51.6	0.2	
	Total	76.9	0.3	64.3
46.	BATH IRON WORKS CORP.	73.1	0.3	64.6
47.	CURTISS-WRIGHT CORP.	69.8	0.3	64.9
48.	HALLICRAFTERS, INC.	68.9	0.3	65.2
49.	CONTINENTAL MOTORS CORP.	51.5	0.2	
	Continental Aviation & Engineering Corp.	16.5	0.1	
	Gray Marine Motor Co.	0.2	d/	
	Wisconsin Motor Corp.	0.2	d/	
	Total	68.4	0.3	65.5
50.	TEXTRON, INC.	6.3	d/	
	Bell Aerospace Corp.	59.3	0.3	
	Textron Electronics, Inc.	0.2	d/	
	Total	65.8	0.3	65.8
51.	INTERNATIONAL HARVESTER CO.	51.5	0.2	
	Hough, (Frank G.) Co.	2.0	d/	
	Macleod & Co.	c/	d/	
	Solar Aircraft Co.	9.6	0.1	
	Total	63.1	0.3	66.1
52.	SANDERS ASSOCIATES, INC.	63.1	0.3	66.4
53.	GOODYEAR TIRE & RUBBER CO.	21.8	0.1	
	Goodyear Aircraft Corp.	40.8	0.2	
	Kelly-Springfield Tire Co.	c/	d/	
	Total	62.6	0.3	66.7
54.	FULLER(G.L.) & WEBB (D. E.) h/	62.1	0.3	67.0

TABLE 2 (Continued)

Rank	Companies	Millions of Dollars	Percent of U.S. Total	Cumulative Percent of U.S. Total
55.	GENERAL TELEPHONE & ELECTRONICS CORP.	\$ 2.3	d/	
	Automatic Electric Sales Corp.	2.2	d/	
	General Telephone & Electronics Laboratories, Inc.	0.3	d/	
	Lenkurt Electric Co., Inc.	3.8	d/	
	Sylvania Electric Products, Inc.	52.8	0.3	
	Total	61.4	0.3	67.3
56.	GARRETT CORP.	59.9	0.2	67.5
57.	SHELL CARIBBEAN PETROLEUM CO.	32.5	0.1	
	International Lubricant Corp.	0.8	d/	
	Shell Oil Co.	23.6	0.1	
	Total	56.9	0.2	67.7
58.	SOCONY MOBIL OIL CO., INC.	48.2	0.2	
	Standard-Vacuum Oil Co. f/	4.7	d/	
	Total	52.9	0.2	67.9
59.	OLIN MATHIESON CHEMICAL CORP.	50.0	0.2	
	Liberty Powder Defense Corp.	2.5	d/	
	Total	52.5	0.2	68.1
60.	LEAR, INC.	50.2	0.2	68.3
61.	LING-TEMCO ELECTRONICS, INC.	0.3	d/	
	Altec Lansing Corp.	0.2	d/	
	Continental Electronics Mfg. Co.	4.8	d/	
	F & M Electronics	0.5	d/	
	Temco Electronic & Missiles Co.	40.8	0.2	
	University Loudspeakers, Inc.	0.2	d/	
	Total	46.8	0.2	68.5
62.	MORRISON-KNUDSEN CO.	45.5	0.2	
	Ferguson (H.K.) Co.	0.1	d/	
	Total	45.6	0.2	68.7
63.	JOHNS HOPKINS UNIVERSITY	44.6	0.2	68.9
64.	EBY (MARTIN K.) CONSTRUCTION CO.	42.1	0.2	69.1
65.	RYAN AERONAUTICAL CO.	42.0	0.2	69.3
66.	DU PONT (E. I.) DE NEMOURS & CO.	7.1	d/	
	Remington Arms Co.	34.0	0.2	
	Total	41.1	0.2	69.5

TABLE 2 (Continued)

Rank	Companies	Millions of Dollars	Percent of U. S. Total	Cumulative Percent of U.S. Total
67.	TODD SHIPYARDS CORP.	\$40.6	0.2	69.7
68.	KAMAN AIRCRAFT CORP.	40.2	0.2	69.9
69.	FAIRCHILD STRATOS CORP.	39.8	0.2	70.1
70.	EASTMAN KODAK CO.	37.7	0.2	
	Eastman Chemical Products, Inc.	0.1	d/	
	Eastman Kodak Stores, Inc.	0.1	d/	
	Recordak Corp.	0.4	d/	
	Total	<u>38.3</u>	0.2	70.3
71.	MARINE TRANSPORT LINES, INC.	37.2	0.2	70.5
72.	SYSTEM DEVELOPMENT CORP.	36.7	0.2	70.7
73.	MASON & HANGER - SILAS MASON CO.	36.5	0.2	70.9
74.	FLUOR CORP., LTD.	35.6	0.2	71.1
75.	AEROSPACE CORP.	34.8	0.2	71.3
76.	RICHFIELD OIL CORP.	33.8	0.2	
	American Mineral Spirits Co.	0.5	d/	
	Total	<u>34.3</u>	0.2	71.5
77.	KEWANEE OIL CO.	0.0	0.0	
	Mathiasens Tanker Industries, Inc.	34.3	0.2	
	Total	<u>34.3</u>	0.2	71.7
78.	CONTINENTAL OIL CO.	27.0	0.2	
	Douglas Oil Co.	0.5	d/	
	Malco Products, Inc.	6.2	d/	
	Westcott Oil Corp.	c/	d/	
	Total	<u>33.7</u>	0.2	71.9
79.	MAGNAVOX CO.	32.4	0.2	72.1
80.	STANDARD KOLLSMAN INDUSTRIES, INC.	0.0	0.0	
	Kollsman Instrument Corp.	32.0	0.1	
	Kollsman Motor Corp.	0.2	d/	
	Richardson-Allen Corp.	c/	d/	
	Total	<u>32.2</u>	0.1	72.2

TABLE 2 (Continued)

Rank	Companies	Millions of Dollars	Percent of U.S. Total	Cumulative Percent of U.S. Total
81.	STANDARD OIL CO. (INDIANA) American Oil Co. Amoco Chemicals Corp. Total	\$ 17.0 14.6 <u>c/</u> 31.6	0.1 <u>d/</u> <u>d/</u> 0.1	72.3
82.	FULLER-WEBB-HARDEMAN <u>i/</u>	31.1	0.1	72.4
83.	NORTHERN PUMP CO. Northern Ordnance Co. Total	0.0 <u>30.6</u> 30.6	0.0 <u>0.1</u> 0.1	72.5
84.	KEYSTONE SHIPPING CO.	30.6	0.1	72.6
85.	LABORATORY FOR ELECTRONICS	29.7	0.1	72.7
86.	INGALLS IRON WORKS CO. Ingalls Shipbuilding Corp. Total	0.0 <u>29.6</u> 29.6	0.0 <u>0.1</u> 0.1	72.8
87.	HAZELTINE CORP. Hazeltine Research Corp. Hazeltine Technical Development Center, Inc. Total	29.2 0.1 0.2 <u>29.5</u>	0.1 <u>d/</u> <u>d/</u> 0.1	72.9
88.	MIDLAND CONSTRUCTORS, INC. <u>j/</u>	28.9	0.1	73.0
89.	WHITE MOTOR CO. Oliver Corp. Total	28.6 <u>0.1</u> 28.7	0.1 <u>d/</u> 0.1	73.1
90.	VITRO CORP. OF AMERICA	28.4	0.1	73.2
91.	FIRESTONE TIRE & RUBBER CO.	28.2	0.1	73.3
92.	JONES-TEER-WINKELMAN <u>k/</u>	28.1	0.1	73.4
93.	COOK ELECTRIC CO.	28.1	0.1	73.5
94.	UNIVERSAL AMERICAN CORP. Amron Corp. Hardeman (Paul), Inc. Norma-Hoffman Bearings Corp. Total	0.0 1.5 26.2 0.2 <u>27.9</u>	<u>d/</u> <u>d/</u> 0.1 <u>d/</u> 0.1	73.6

TABLE 2 (Continued)

Rank	Companies	Millions of Dollars	Percent of U.S. Total	Cumulative Percent of U.S. Total
95.	WESTINGHOUSE AIR BRAKE CO.	\$ 0.2	d/	
	Le Tourneau-Westinghouse Co.	0.9	d/	
	Melpar, Inc.	26.8	0.1	
	Total	27.9	0.1	73.7
96.	SINCLAIR OIL CORP.	26.8	0.1	73.8
97.	ARO, INC.	26.4	0.1	73.9
98.	MARQUARDT CORP.	26.3	0.1	74.0
99.	TEXAS INSTRUMENTS, INC.	26.2	0.1	74.1
100.	MOTOROLA, INC.	24.7	0.1	
	Motorola Aviation Electronics, Inc.	0.2	d/	
	Motorola Communications & Electronics, Inc.	0.6	d/	
	Total	25.6	0.1	74.2

FOOTNOTES:

a/ Net value of new procurement actions minus cancellations, terminations and other credit transactions. The data include debit and credit procurement actions of \$10,000 or more, under military supply, service and construction contracts for work in the U. S.; plus awards to listed companies and other identifiable U. S. companies for work overseas.

Procurement actions include definitive contracts, the obligated portions of letter of intent and letter contracts, purchase orders, job orders, task orders, delivery orders, and any other orders against existing contracts. The data do not include that part of open-end or indefinite quantity contracts that have not been translated into specific orders on business firms. The data do not include purchase commitments or pending cancellations that have not yet become mutually binding agreements between the government and the company.

b/ The assignment of subsidiaries to parent companies is based on stock ownership of 50% or more by the parent company, as indicated by data published in standard industrial reference sources. The company totals do not include contracts made by other U. S. Government agencies and financed with Department of Defense funds, or contracts awarded in foreign nations through their respective governments. The company names and corporate structures are those in effect as of 30 June 1961. Only those subsidiaries are shown for which procurement actions have been reported.

TABLE 2 (Continued)

c/ Less than \$50,000.

d/ Less than 0.05%.

e/ Stock Ownership is equally divided between General Motors Corp. and Standard Oil Co. of New Jersey; half of the total military awards is shown under each of the parent companies.

f/ Stock ownership is equally divided between Standard Oil Co. of New Jersey and Socony Mobil Oil Co.; half of the total of military awards is shown under each of the parent companies.

g/ Stock ownership is equally divided between Standard Oil Co. of California and Texaco, Inc.; half of the total of military awards is shown under each of the parent companies.

h/ A joint venture of George A. Fuller Co. and Del E. Webb Corp.

i/ A joint venture of George A. Fuller Co., Del E. Webb Corp. and Paul Hardeman, Inc.

j/ A joint venture of Hardaway Contracting Co., Oman Construction Co., Inc., R. P. Farnsworth & Co., Inc., and Wright Constructing Co.

k/ A joint venture of J. A. Jones Construction Co., Nello L. Teer Co., and D. R. Winkelman Co.

r/ Revised

NEGOTIATED PROCUREMENTS

Negotiated procurements for fiscal year 1962, were 86.7 percent of total awards and down slightly from the previous year. Significantly, the DOD states that when items can be broken out and procured competitively the savings are about 25 percent. (See app. 2.) Since Congress intended that negotiation would be the exception and not the rule the practice is far from the mark.

TABLE 8.—*Net value of military procurement actions, with business firms for work in the United States, classified by method of procurement, fiscal years, 1951-62*

Fiscal year	Total net value (millions)	Formally advertised procurement		Negotiated procurement	
		Millions	Percent	Millions	Percent
1951.....	\$30,823	\$3,720	12.1	\$27,103	87.9
1952.....	41,482	4,479	10.8	37,003	89.2
1953.....	27,822	3,089	11.1	24,733	88.9
1954.....	11,448	1,789	15.6	9,659	84.4
1955.....	14,930	2,386	16.0	12,544	84.0
1956.....	17,750	2,815	15.9	14,935	84.1
1957.....	19,133	3,321	17.4	15,812	82.6
1958.....	21,827	3,115	14.3	18,712	85.7
1959.....	22,744	3,089	13.6	19,655	86.4
1960.....	21,302	2,978	14.0	18,324	86.0
1961.....	22,992	2,770	12.0	20,222	88.0
1962.....	26,147	3,412	13.1	22,735	86.9
Total, 1951-62.....	278,400	36,963	13.3	241,437	86.7

Source: "Military Prime Contract Awards and Subcontract Payments, July-September 1962," Office of the Secretary of Defense.

NEGOTIATED CONTRACTS BY NEGOTIATION AUTHORITY (TABLE 9)

For the period July 1961 to June 1962, three types of negotiation authority accounted for almost two-thirds of all negotiations.

	Percent
Impracticable to secure competition by formal advertising.....	13.6
Experimental, developmental, test, or research.....	19.4
Technical or specialized supplies requiring substantial initial investment or extended period of preparation for manufacture.....	29.5
Total.....	62.5

TABLE 9

Net value of military procurement actions under formally advertised and negotiated contracts by negotiation authority, fiscal years 1959 and 1960

[Dollars in thousands]

Negotiation authority	July 1958 to June 1959					July 1959 to June 1960				
	Total		Army	Navy	Air Force	Total		Army	Navy	Air Force
	Amount	Percent				Amount	Percent			
All actions, total.....	\$25,312,065	-----	\$6,008,638	\$7,671,313	\$11,632,114	\$23,688,533	-----	\$5,882,216	\$7,420,636	\$10,385,681
Intragovernmental.....	758,347	-----	248,148	141,219	368,980	780,875	-----	256,265	154,319	370,291
Formally advertised.....	3,255,682	-----	1,354,454	1,357,085	544,143	3,169,521	-----	1,347,685	1,364,352	457,484
Negotiated ¹	21,298,036	100.0	4,406,036	6,173,009	10,718,991	19,738,137	100.0	4,278,266	5,901,965	9,557,906
Sec. 2304(a):										
(1) National emergency (subtotal).....	473,606	2.2	142,277	153,144	178,185	419,861	2.2	150,083	116,414	153,364
(a) Labor surplus area and industry set-aside.....	121,486	.6	85,759	18,785	16,942	37,342	.2	29,659	4,575	3,108
(b) Small business set-aside (unilateral).....	61,280	.3	30,606	4,655	26,019	60,391	.3	19,261	5,320	35,810
(c) Disaster area set-aside.....	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----
(d) Experimental, developmental, or research not more than \$100,000.....	250,090	1.2	89,024	74,359	86,707	289,805	1.5	101,604	80,022	108,179
(e) Modifications authorized by existing contract negotiated prior to Jan. 1, 1956.....	40,750	.1	-63,112	55,345	48,517	32,323	.2	-441	26,497	6,267
(2) Public exigency.....	199,218	.9	41,140	81,283	70,795	143,924	.7	17,320	36,742	89,862
(3) Purchases not more than \$2,500.....	769,323	3.6	340,254	207,815	221,254	825,287	4.2	368,042	243,325	225,920
(4) Personal or professional services.....	81,665	.4	42,387	13,492	25,786	58,563	.3	24,559	11,218	22,786
(5) Services of educational institutions.....	335,818	1.6	89,814	84,799	161,205	298,645	1.5	60,196	113,068	125,381
(6) Purchases outside United States.....	1,117,228	5.2	594,554	319,539	203,135	940,321	4.8	505,092	257,313	177,916
(7) Medicines or medical supplies.....	33,959	.2	408	33,018	635	53,228	.3	622	51,428	1,178
(8) Supplies purchased for authorized resale.....	128,555	.6	90,514	11,769	17,272	135,966	.7	107,557	7,796	20,613
(9) Perishable or nonperishable subsistence.....	480,096	2.3	474,141	1,986	3,969	441,764	2.2	436,632	2,674	2,458
(10) Impractical to secure competition by formal advertising.....	3,966,992	18.6	481,342	1,298,439	2,187,211	3,323,626	16.8	479,158	990,338	1,854,130
(11) Experimental, developmental, test, or research.....	4,027,675	18.9	487,228	503,657	3,036,790	4,390,450	22.2	556,252	635,961	3,198,237
(12) Classified purchases.....	630,148	3.0	100,733	517,293	12,122	964,087	4.9	90,234	874,281	-428
(13) Technical equipment requiring standardization and interchangeability of parts.....	12,897	(2)	5,515	7,286	96	38,014	.2	25,252	12,762	-----
(14) Technical or specialized supplies requiring substantial initial investment or extended period of preparation for manufacture.....	7,022,201	33.0	284,379	2,308,903	4,428,919	6,034,420	30.6	464,612	2,075,603	3,494,205
(15) Negotiation after advertising.....	2,268	(2)	187	939	1,142	75	(3)	-----	24	51
(16) Purchases to keep facilities available in the interest of national defense or industrial mobilization.....	1,345,573	6.3	944,096	362,521	38,956	973,761	4.9	741,689	185,529	46,543
(17) Otherwise authorized by law.....	670,814	3.2	278,067	267,126	125,021	696,145	3.5	260,966	287,489	147,690

¹ Statutory authority for negotiation is contained in 10 U.S.C. 2304(a) which specifies 17 circumstances when negotiation is permitted.

² Less than 0.05 percent.

Net value of military procurement actions under formally advertised and negotiated contracts by negotiation authority, fiscal years 1961 and 1962

[Amounts in thousands]

Statutory authority (10 U.S.C.2304(a))	July 1960-June 1961					July 1961-June 1962					
	Total		Army, amount	Navy, amount	Air Force, amount	Total		Army, amount	Navy, amount	Air Force, amount	Defense Supply agency, amount ¹
	Amounts	Percent				Amount	Percent				
Total.....	\$25,584,390	-----	\$6,273,056	\$7,935,082	\$11,376,252	\$29,254,502	-----	\$7,555,735	\$8,766,618	\$11,769,112	\$1,163,037
Intragovernmental.....	880,990	-----	303,274	188,617	389,099	1,155,481	-----	406,910	216,043	471,165	61,363
Total, except intragovernmental.....	24,703,400	100.0	5,969,782	7,746,465	10,987,153	28,099,021	100.0	7,148,825	8,550,575	11,297,947	1,101,674
Formally advertised.....	2,931,711	11.9	1,221,322	1,261,115	449,274	3,544,619	12.6	1,304,007	1,321,076	474,501	445,035
Other authority (subtotal).....	21,771,689	88.1	4,748,460	6,485,350	10,537,879	24,554,402	87.4	5,844,818	7,229,499	10,823,446	656,639
(1) National emergency.....	374,915	1.5	148,441	125,382	101,092	586,370	2.1	230,788	174,787	151,354	29,441
(a) Labor surplus area and industry set-aside.....	66,670	.3	47,264	13,312	6,094	142,495	.5	76,099	33,779	11,365	21,252
(b) Small business set-aside (unilateral).....	58,715	.2	25,066	15,173	18,476	127,800	.5	62,853	41,699	15,989	7,259
(c) Disaster area set-aside.....	0	0	0	0	0	862	(*)	862	0	0	0
(d) Experimental, developmental, test or research not more than \$100,000.....	291,050	1.2	86,404	85,833	118,813	307,266	1.1	86,607	95,840	124,735	84
(e) Modifications authorized by existing contract negotiated prior to Jan. 1, 1956.....	-41,520	-.2	-10,293	11,064	-42,291	5,285	(*)	2,953	3,429	-1,115	18
(f) Balance of payments program.....	-----	-----	-----	-----	-----	2,662	(*)	1,414	40	380	828
(2) Public exigency.....	126,194	.5	11,055	37,197	77,942	417,095	1.5	63,397	107,966	237,215	8,527
(3) Purchases not more than \$2,500.....	918,717	3.7	385,087	284,517	249,113	1,069,251	3.8	399,641	329,618	293,622	55,370
(4) Personal or professional services.....	87,875	.3	20,899	32,578	34,398	125,731	.4	61,939	38,911	24,881	0
(5) Services of educational institutions.....	309,508	1.3	44,470	118,817	146,221	295,195	1.1	44,689	128,923	121,552	31
(6) Purchases outside United States.....	1,014,195	4.1	545,769	299,891	168,535	1,193,502	4.3	599,777	286,803	233,392	73,530
(7) Medicines or medical supplies.....	42,535	.2	868	40,821	846	62,854	.2	1,131	14,384	938	46,401
(8) Supplies purchased for authorized resale.....	122,464	.5	92,146	6,965	23,353	82,100	.3	31,978	6,399	25,286	18,437
(9) Perishable or nonperishable subsistence.....	436,103	1.8	429,543	3,550	3,010	485,235	1.7	248,772	4,449	5,181	226,833
(10) Impractical to secure competition by formal advertising.....	3,512,508	14.2	625,545	986,920	1,900,043	3,813,955	13.6	650,906	1,097,279	2,040,229	25,541

(11) Experimental, developmental, test or research.....	4,987,733	20.2	536,551	614,306	3,836,876	5,456,717	19.4	663,890	642,766	4,150,061	0
(12) Classified purchases.....	1,259,383	5.1	91,483	1,167,884	16	771,714	2.7	272,607	496,707	2,400	0
(13) Technical equipment requiring standardization and interchangeability of parts.....	29,674	.1	10,012	18,468	1,194	43,240	.2	23,231	19,939	70	0
(14) Technical or specialized supplies requiring substantial initial investment or extended period of preparation for manufacture.....	6,991,945	28.3	1,124,752	2,226,153	3,641,040	8,286,256	29.5	1,852,412	3,303,885	3,129,959	0
(15) Negotiation after advertising.....	8,631	(*)	0	1,161	7,470	2,295	(*)	22	68	2,205	0
(16) Purchases to keep facilities available, etc.....	671,262	2.7	337,026	196,311	137,925	670,331	2.4	190,812	285,199	175,517	18,803
(17) Otherwise authorized by law.....	878,047	3.6	344,813	324,429	208,805	1,192,562	4.2	517,826	291,427	229,584	153,725

¹ Includes awards since Jan. 1, 1962 for certain common supplies for which procurement responsibility was transferred from the military departments.

² Less than 0.05 percent.

FIXED-PRICE VERSUS COST REIMBURSEMENT CONTRACTS

During the past fiscal year, the use of fixed-price contracts was increased by 2.9 percent.

TABLE 10.—*Net value of military procurement actions, by type of contract pricing provision,¹ fiscal years 1952-62*

[Dollar amounts in millions]

Fiscal year	Total net value of actions	Type of contract			
		Fixed price		Cost reimbursement	
		Dollars	Percent of total	Dollars	Percent of total
1952.....	\$34,028	\$27,954	82.1	\$6,074	17.9
1953.....	29,285	23,358	79.8	5,927	20.2
1954.....	10,942	7,708	70.4	3,234	29.6
1955.....	13,661	10,366	75.9	3,295	24.1
1956.....	16,102	11,221	69.7	4,881	30.3
1957.....	17,997	11,995	66.6	6,002	33.4
1958.....	22,162	13,389	60.4	8,773	39.6
1959.....	22,873	13,520	59.1	9,353	40.9
1960.....	21,182	12,160	57.4	9,022	42.6
1961.....	22,857	13,243	57.9	9,614	42.1
1962.....	25,780	15,667	60.8	10,113	39.2

¹ Includes Army, Navy, and Air Force, but excludes Armed Services Petroleum Purchasing Agency. Beginning Jan. 1, 1957, data for the Military Petroleum Supply Agency, the successor to ASPPA, are included with the Navy figures. Includes oversea procurement except for Army prior to fiscal year 1958. Excludes intragovernmental procurement. Excludes procurement actions less than \$10,000 in value. Also excludes some Navy letters of intent (on which pricing provisions had not been determined) during fiscal year 1952.

Source: "Military Prime Contract Awards and Subcontract Payments, July-September 1962" Office of the Secretary of Defense.

UTILIZATION OF STOCKS

With the development of uniform cataloging and the institution of centralized management of common items of supply it is possible to match requirements against existing inventories and obviate additional procurements and perhaps simultaneous declarations of surplus. From fiscal year 1958 through fiscal year 1962 the amount of utilization has steadily risen from \$213 to \$1,080 million. Since there are now stocks valued at \$13 billion in excess and long supply, (app. 2, p. 68), accelerated improvement is expected in this activity enhanced by the use of automatic data processing equipment and more standardized procedures.

TABLE 11

[In millions]

Utilization of DOD assets	Fiscal year 1958	Fiscal year 1959	Fiscal year 1960	Fiscal year 1961	Fiscal year 1962
DOD interservice supply support program (wholesale).....	\$32	\$119	\$141	\$208	\$321
Intraservice utilization of military service declared excess property.....	117	232	408	616	637
Interservice utilization of military service declared excess property.....	64	134	117	132	122
Total.....	213	485	666	956	1,080

Source: Office of Secretary of Defense

DISPOSITION OF DOD SURPLUS STOCKS

The volume of surplus DOD personal property has reduced about 50 percent from fiscal year 1959 to fiscal year 1962 (table 12) while the percent of total gross proceeds to the total acquisition cost has increased about 1 percent. The percent of proceeds to acquisition cost (other than scrap and salvage) has increased about 2 percent (table 13). Meanwhile the costs of disposal sales has doubled as a percent of gross proceeds from fiscal year 1959 to fiscal year 1962 (table 14).

TABLE 12.—Total dispositions (at acquisition cost) of surplus property, fiscal years 1958–62

[In millions]

	Fiscal year 1958	Fiscal year 1959	Fiscal year 1960	Fiscal year 1961	Fiscal year 1962
Utilized by other Government agencies and MAP.....	\$168	\$361	\$141	\$349	\$271
Abandoned or destroyed.....	62	99	118	44	50
Authorized donations.....	221	314	347	275	258
Sales (other than scrap) and salvage.....	2,465.8	2,789.2	2,356.4	1,771.3	1,236.2
Expended to scrap.....	2,993.7	4,576.8	3,626.7	4,331.8	2,233.1
Total dispositions.....	5,911	8,141	6,589	6,791	4,061

TABLE 13.—Proceeds from disposal sales of surplus property by the military departments, fiscal years 1958–62

[In millions]

Proceeds from disposal	Fiscal year 1958	Fiscal year 1959	Fiscal year 1960	Fiscal year 1961	Fiscal year 1962
From sale (other than scrap) and salvage.....	\$128	\$140	\$124	\$106	\$87
From sale of other property.....	55	72	70	61	48
Total.....	183	212	194	167	135
Acquisition cost (total).....	5,460	7,366	5,983	6,123	3,482
Percent of total gross proceeds to total acquisition cost.....	3.38	2.88	3.24	2.71	3.87
Percent of proceeds to acquisition cost (other than scrap) and salvage.....	5.18	5.2	5.25	5.98	7.02

TABLE 14.—Costs of disposal sales of surplus property by the military departments fiscal years 1958-62

[In millions]

Costs of disposal sales of surplus property	Fiscal year 1958	Fiscal year 1959	Fiscal year 1960	Fiscal year 1961	Fiscal year 1962
Cost for demilitarization.....	\$24.0	\$20.5	\$26.6	\$19.1	\$9.1
Costs for preparation and selling.....	18.5	37.8	51.8	65.5	69.0
Total.....	42.5	58.3	78.4	84.6	78.1
Gross proceeds.....	183.0	212.0	194.0	167.0	135.0
Percent of sales costs to gross proceeds.....	23.0	27.5	40.4	50.6	58.0

MILITARY PRIME CONTRACT AWARDS FOR EXPERIMENTAL, DEVELOPMENTAL, TEST, AND RESEARCH WORK, BY STATES, AND REGIONS

From an economic point of view there has been widespread interest in negotiated contracts for experimental, developmental, test and research work, constituting 19.4 percent of all negotiated contracts for fiscal year 1962. While these awards in themselves amounted to over \$6 billion in fiscal year 1962, many people believe them to be of the "seed corn" variety which later lead to even larger production contracts.

The breakdown of the value of these awards by States and District of Columbia shows (table 15):

Percent of total:	Number of States	Percent of total:	Number of States
35-40.....	1	3-4.....	4
10-15.....	1	2-3.....	1
5-10.....	2	1-2.....	4
4-5.....	1	0-1.....	37

TABLE 15.—Net value of military prime contract awards for experimental, developmental, test, and research work, by States,¹ fiscal years 1958–62

[Amounts in thousands]

State	Fiscal year 1958		Fiscal year 1959		Fiscal year 1960		Fiscal year 1961		Fiscal year 1962	
	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent
Grand total.....	\$4,056,410	100.0	\$5,207,464	100.00	\$5,521,435	100.0	\$6,027,495	100.00	\$6,113,115	100.00
New England:										
Maine.....	117	(?)	152	(?)	670	(?)	128	(?)	496	.01
New Hampshire.....	2,365	.1	7,109	.1	8,842	.2	10,664	.18	8,204	.13
Vermont.....	2,905	—	1,809	(?)	3,030	—	1,986	.02	1,899	.03
Massachusetts.....	232,318	5.7	304,945	5.9	397,517	7.2	348,452	5.78	361,973	5.92
Rhode Island.....	1,824	(?)	2,045	.1	1,512	(?)	5,601	.09	6,312	.10
Connecticut.....	56,120	1.4	105,105	2.0	91,979	1.7	123,295	2.05	65,005	1.06
Total.....	295,649	7.3	421,156	8.1	503,550	9.2	489,526	8.12	443,889	7.25
Middle Atlantic:										
New York.....	569,710	14.0	667,218	12.8	533,169	9.7	734,934	12.19	664,844	10.87
New Jersey.....	200,382	5.0	161,274	3.1	434,654	7.9	228,280	3.79	293,237	4.80
Pennsylvania.....	276,692	6.8	256,444	4.9	189,385	3.4	224,239	3.72	235,998	3.86
Total.....	1,046,784	25.8	1,084,936	20.8	1,157,208	21.0	1,187,453	19.70	1,194,079	19.53
East North Central:										
Ohio.....	138,615	3.4	173,595	3.3	179,349	3.3	137,502	2.28	132,603	2.17
Indiana.....	45,799	1.1	54,058	1.0	34,065	.6	29,488	.49	39,405	.64
Illinois.....	56,627	1.4	67,700	1.2	67,287	1.2	61,984	1.03	56,296	.92
Michigan.....	71,655	1.8	117,542	2.3	84,503	1.5	92,313	1.53	58,560	.96
Wisconsin.....	4,424	.1	5,005	.1	64,079	1.2	74,239	1.23	63,487	1.04
Total.....	317,120	7.8	417,900	7.9	429,283	7.8	395,526	6.56	350,641	5.73
West North Central:										
Minnesota.....	53,436	1.3	64,826	1.2	59,968	1.1	51,378	.85	52,082	.85
Iowa.....	13,924	.3	20,117	.4	14,617	.3	5,051	.09	5,563	.09
Missouri.....	26,871	.7	40,115	.8	24,154	.4	18,226	.30	17,237	.28
North Dakota.....	0	0	85	(?)	0	0	0	0	0	0
South Dakota.....	72	(?)	149	(?)	548	(?)	292	(?)	401	.01
Nebraska.....	28	(?)	11	(?)	22	(?)	5,011	.09	2,910	.05
Kansas.....	4,971	.1	3,963	.1	6,054	.1	3,092	.05	6,198	.10
Total.....	99,302	2.4	129,266	2.5	105,363	1.9	83,050	1.38	84,392	1.38

See footnotes at end of table, p. 43.

TABLE 15.—*Net value of military prime contract awards for experimental, developmental, test, and research work, by State,¹ fiscal years 1958-62*
—Continued

[Amounts in thousands]

State	Fiscal year 1958		Fiscal year 1959		Fiscal year 1960		Fiscal year 1961		Fiscal year 1962	
	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent
South Atlantic:										
Delaware.....	1,884	(²)	2,947	.1	2,215	.1	2,272	.04	21,952	.36
Maryland.....	136,002	3.4	160,141	3.1	127,380	2.3	198,483	3.29	190,581	3.12
District of Columbia.....	19,022	.5	21,376	.4	19,148	.3	24,010	.40	23,783	.39
Virginia.....	22,185	.6	18,512	.4	22,786	.4	18,729	.31	34,572	.56
West Virginia.....	10,603	.3	11,960	.2	17,786	.3	42,252	.70	51,464	.84
North Carolina.....	6,045	.1	138,675	2.7	7,476	.1	16,142	.27	37,046	.60
South Carolina.....	224	(²)	149	(²)	211	(²)	188	(²)	338	.01
Georgia.....	5,611	.1	12,647	.2	5,264	.1	6,011	.10	4,686	.08
Florida.....	93,121	2.3	166,503	3.2	101,200	1.8	152,727	2.53	230,962	3.78
Total.....	294,697	7.3	532,910	10.3	303,466	5.4	460,814	7.65	595,384	9.74
South Central:										
Kentucky.....	1,025	(²)	400	(²)	327	(²)	890	.01	716	.01
Tennessee.....	777	(²)	1,168	(²)	1,102	(²)	27,001	.45	33,583	.55
Alabama.....	30,671	.8	25,966	.5	20,435	.4	7,640	.13	12,694	.21
Mississippi.....	292	(²)	529	(²)	577	(²)	894	.01	501	.01
Arkansas.....	476	(²)	450	(²)	346	(²)	414	.01	323	.01
Louisiana.....	707	(²)	751	(²)	3,690	.1	1,689	.03	947	.02
Oklahoma.....	3,773	.1	3,989	.1	5,757	.1	4,551	.07	4,402	.07
Texas.....	93,700	2.3	34,786	.7	93,023	1.7	63,059	1.05	73,231	1.20
Total.....	131,421	3.2	68,039	1.3	125,257	2.3	106,138	1.76	126,397	2.08
Mountain:										
Montana.....	71	(²)	27	(²)	74	(²)	16	(²)	56	(²)
Idaho.....	45	(²)	0	0	26	(²)	0	(²)	—	(²)
Wyoming.....	0	0	0	0	230	(²)	3,475	.06	1,160	.02
Colorado.....	97,577	2.4	4,943	.1	177,676	3.2	293,528	4.87	229,339	3.75
New Mexico.....	13,003	.3	14,343	.3	13,861	.3	13,249	.22	13,752	.23
Arizona.....	12,701	.3	14,377	.3	17,791	.3	23,858	.40	18,894	.31
Utah.....	12,780	.3	73,373	1.4	108,933	2.0	181,118	3.00	119,192	1.95
Nevada.....	54	(²)	279	(²)	16	(²)	1,494	.02	65	(²)
Total.....	136,231	3.3	107,342	2.1	318,607	5.8	516,738	8.57	382,440	6.26

CONGRESS OF THE UNITED STATES
JOINT ECONOMIC COMMITTEE

Senator Paul H. Douglas (D., Ill.), Chairman of the Subcommittee on Defense Procurement of the Joint Economic Committee, today released a committee print entitled "Background Materials on Economic Aspects of Military Procurement and Supply," March 1963. This updates a similar publication of the Subcommittee that came out in February 1960.

These materials have been prepared for the Subcommittee hearings which were announced March 21 and are scheduled for March 28, 29, and April 1, 1963.

Among the materials are:

Magnitude of Operations

Military real and personal property holdings have increased from \$155 billion at the end of fiscal year 1960 to \$165 billion at the end of fiscal 1962, an increase of \$10 billion.

Personal property holdings have increased about \$7 billion in that time, to \$128 billion.

Expenditures for Department of Defense military functions were 8.7 percent of the gross national product at the end of fiscal 1962 compared to 8.5 percent the year prior.

From June 30, 1959 to June 30, 1962, the number of civilian personnel had decreased by 3,127, but with a payroll increase of \$523 million.

The Department of Defense supply systems had unissued stores inventories costing \$41 billion at the end of fiscal 1962. Eleven billion dollars (27 percent) of this was in the mobilization reserves.

The net value of military procurements during fiscal 1962 was \$27.8 billion -- up \$3.5 billion from the previous year.

One State (California) had 23.9 percent of procurement actions and 27 States had less than 1 percent each.

The 100 largest prime contractors had 72.3 percent of the military prime contract awards (fiscal 1962).

Negotiated procurement amounted to 86.7 percent in fiscal 1962 compared to 86.9 percent in the fiscal year 1961.

(m o r e)

Savings of 25 percent result when items can be "broken out" from more complex equipment and bought competitively.

There are \$13 billion of excess and long stocks in military inventories.

The total surplus property disposals dropped from \$6,791 billion in fiscal 1961 to \$4,061 billion in fiscal 1962. The percent of total gross proceeds to acquisition cost was 3.87.

Reports to Congress -- General Accounting Office (GAO)

An index and digest of 207 GAO reports to Congress on the military procurement, supply and related subjects.

A report by the GAO on "Uneconomical Procurement of Certain Aircraft Engine Bearings by the Navy."

Other Reports

A progress report on organization, accomplishments, and programs of the Defense Supply Agency.

A statement by Secretary McNamara on the Department of Defense's "Five-Year Cost Reduction Program."

Two case studies (one from GAO) dealing with the mobilization reserves.

Legal background and agreements affecting the General Services Administration and the Department of Defense relationships.

(e n d)

Pacific:										
Washington.....	246,796	6.1	160,810	3.1	206,145	3.7	293,684	4.87	492,787	8.06
Oregon.....	689	(¹)	806	(¹)	1,421	(¹)	1,377	.02	2,031	.03
California.....	1,485,152	36.7	2,283,286	43.9	2,370,269	42.9	2,491,585	41.34	2,438,863	39.90
Total.....	1,732,637	42.8	2,444,002	47.0	2,577,835	46.6	2,787,066	46.24	2,933,681	47.99
Alaska.....	2,569	.1	848	(¹)	809	(¹)	1,163	.02	1,558	.03
Hawaii.....			165	(¹)	57	(¹)	21	(¹)	652	.01
Total.....	2,569	.1	1,013	(¹)	866	(¹)	1,184	.02	2,210	.04

¹ Procurement actions of \$10,000 or more each. Percentages may not add to subtotals because of rounding.

² Less than 0.05 percent.

QUALITY OF MILITARY SUPPLY MANAGEMENT

As stated above, two very significant projects or programs have been instituted by Secretary McNamara in the DOD during the past 2 years. They are:

(1) The establishment of the Defense Supply Agency pursuant to the McCormack-Curtis amendment of 1958 to the National Security Act. This logistics agency embraces many important functions and services which were divided among the military services in the past. The progress made in establishing the Agency and effectively consolidating many units into it in a short space of time is remarkable and a tribute to those responsible.

A detailed account of the DSA organization, progress, and objectives is included in appendix 1.

It should be understood that DSA will manage more than 1 million items by June 1963 and this will be about one-fourth of those in the entire DOD.

DSA's inventory value at that time will be \$2.2 billion of the \$41 billion in the DOD, or about 5 percent.

DSA's annual rate of procurement of around \$3 billion, or 11 percent, is small compared to the overall DOD procurement of \$27.8 for fiscal year 1962.

(2) The second significant program which was begun after the establishment of DSA, but which actually embraces it, is the cost reduction program which the Secretary of Defense has recently announced (app. 2).

The goal of this 5-year program is to "initiate actions which will increase the rate of savings to over \$3.4 billion per year" by the end of fiscal year 1965, or in a little over 2 years.

This program which the President has endorsed is predicated upon buying only what is needed both qualitatively and quantitatively, buying at the lowest sound price, reducing operating costs including reductions in military and civilian personnel, and the termination of unnecessary operations bases and installations.

Though this is an ambitious goal it is not unattainable considering the magnitude of the DOD operations and the inefficiencies which have constantly been reported by the General Accounting Office, congressional committees, the Hoover Commission and other study groups, and the reports and studies of the DOD itself.

GAO REPORTS TO CONGRESS

Despite the undoubted progress that has been made in the management of military supply and related services during the past 3 years, the GAO has issued 207 reports since the hearing of the subcommittee in January 1960. These reports bear upon the quality of performance in supply and service areas.

An index to the reports and a digest of each is included in appendix 3.

An analysis of the reports again shows many supply management deficiencies which were covered by Comptroller General Campbell in his testimony before the subcommittee on January 28, 1960.⁸

A recent GAO report (B-146748, app. 4) dated January 31, 1963, entitled "Review of Uneconomical Procurement of Certain Aircraft

⁸ 1960 hearings, pp. 2-30.

Engine Bearings by the Department of the Navy," reveals some important points:

Additional costs of \$408,000 were incurred through failure to use competitive bids.

Navy insisted on buying the parts from the engine manufacturer, though Air Force, which is responsible for such purchases, advised Navy of savings through competitive buying.

The items were purchased while identical items were being disposed of by the Navy as excess to its needs.

Directives and policy statements were disregarded thus attesting to lack of necessary disciplines.

The GAO studies and reports, though performed on more or less of a sampling basis on the millions of transactions involved, have saved the taxpayers an estimated \$115,410,000 in calendar year 1962.

DSA/GSA RELATIONSHIPS

During the subcommittee hearings of January 1960, there was considerable evidence that the relationships between DOD and GSA in certain supply and service activities should be improved.⁹

There was special reference to the fact that for certain classes of common commercial-type items such as paints, handtools, and so forth, that were used extensively in both civilian and military agencies that GSA had a better performance record than the military agencies.¹⁰

It was further stated that it was the intent that many of these items would be managed by GSA in the future and agreements were subsequently made in this regard (app. 5).

The subcommittee report of October 1960 took recognition of the testimony and agreement evidenced at that time and recommended:

4. The role of the General Services Administration (GSA) vis-a-vis the DOD should be spelled out at least for the next 5 years, approved by Presidential directive, fully implemented, and supported by the Executive Office. Needed funds, facilities, and personnel should be transferred with transferred functions.¹¹

Since 1960 the Air Force has expressed satisfaction with GSA's handling of the handtool program and GSA's performance during the Cuban crisis in October 1962 was considered to be equal to or better than that of DSA which, of course, was only recently activated.

It is perhaps inevitable that differences of opinion will develop between two agencies that have much in common and the forthcoming subcommittee hearings scheduled for March 28, 29, and April 1, 1963, might well elicit testimony to determine the current status of the working agreements between the two agencies.

The GSA management of 12,718 stores stock items is relatively small compared to the 1.3 million items to be managed by DSA. (See p. 46.) Likewise, GSA purchases of stores items for fiscal year 1962 amounting to \$297.7 million is small compared to DSA planned annual purchases of almost \$3 billion.

Since the management of mobilization reserves is a serious policy matter affecting the DSA/GSA relationships some case study material involving two items, coffee and commercial motor vehicles is included for consideration in appendix 6.

⁹ 1960 hearings pp. 214 and on.

¹⁰ 1960 Report, p. 59.

¹¹ Ibid., p. XII. (See also p. 2.)

(The matter referred to follows:)

GENERAL SERVICES ADMINISTRATION,
FEDERAL SUPPLY SERVICE,
Washington, D.C., February 20, 1963.

Mr. RAY WARD,
Joint Economic Committee,
Washington, D.C.

DEAR MR. WARD: In accordance with your request of Mr. Robert M. Orem-land, the following information is furnished.

Purchases by the Federal supply service

[In millions]

	Fiscal year 1962	1st half fiscal year 1963
Stores items.....	\$297.7	\$152.0
Nonstores.....	193.1	72.2
Federal supply schedules.....	697.1	404.1
Total purchases.....	1,187.9	628.3

There are 12,718 stores stock items. The number of nonstores items procured during 1962 is estimated at approximately 7,500. The number of Federal Supply Schedule items has recently been estimated at over 16 million. This figure includes millions of parts and other items in contractor's price lists which are incorporated in these contracts. We estimate that there are some 700,000 fast-moving schedule items in these contracts.

Sincerely yours,

C. D. BEAN, *Commissioner.*

McCORMACK-CURTIS AMENDMENT RE SUPPLY AND SERVICE ACTIVITIES IN THE DOD

The McCormack-Curtis amendment to the National Security Act of 1947, as amended states:

Whenever the Secretary of Defense determines it will be advantageous to the Government in terms of effectiveness, economy, or efficiency, he shall provide for the carrying out of any supply or service activity common to more than one military department by a single agency or such other organizational entities as he deems appropriate. For the purposes of this paragraph, any supply or service activity common to more than one military department shall not be considered a "major combatant function" within the meaning of paragraph (1) hereof.

The Comptroller General on May 25, 1962, rendered a decision stating in part:

From the language of the statutory provision referred to and its legislative history, it is clear that the Secretary of Defense is not only authorized to provide for the consolidation of supply management administration but that he has a congressional mandate to do so. (See p. 47 for full text.)

The establishment of the Defense Supply Agency as the organization to centrally control the supply management of textiles and clothing as well as other common use items is entirely consistent with the literal wording of the statute and its intended purpose.

In view of misconceptions as to the authority of Secretary McNamara to establish DSA, the Comptroller General's decision should be convincing.¹²

¹² See p. 72, 1960 report.

(The matter referred to follows:)

COMPTROLLER GENERAL OF THE UNITED STATES,
Washington May 25, 1962.

HON. CHET HOLIFIELD,
Chairman, Military Operations Subcommittee,
Committee on Government Operations,
House of Representatives.

DEAR MR. CHAIRMAN: This is in response to your request during recent hearings held by your subcommittee concerning the Defense Supply Agency that we supply for the record answers to two questions, posed by Representative F. Bradford Morse, dealing with the legislative authority of the Secretary of Defense regarding certain aspects of supply management. The questions are:

1. Is there sufficient legislative authority for the Director of the Defense Supply Agency to centrally control all facets of supply management in the Department of Defense for clothing and textile items common to two or more services?

2. Does the Secretary of Defense have authority to control the introduction of new clothing items into the supply system and, if so, has he delegated such authority to the Director of the Defense Supply Agency?

Subsection 202(c)(6) of the National Security Act of 1947, as amended by subsection 3(a) of the Department of Defense Reorganization Act of 1958, 72 Stat. 514, 5 U.S.C. 171a(c)(6), provides that:

"(6) Whenever the Secretary of Defense determines it will be advantageous to the Government in terms of effectiveness, economy, or efficiency, he shall provide for the carrying out of any supply or service activity common to more than one military department by a single agency or such other organizational entities as he deems appropriate. For the purposes of this paragraph, any supply or service activity common to more than one military department shall not be considered a 'major combatant function' within the meaning of paragraph (1) hereof."

In commenting on this provision, Representative McCormack who introduced it on the floor of the House as an amendment to H.R. 12541 which was enacted as the 1958 Reorganization Act, stated:

"The language is intended to permit the Secretary, that is, to permit one Department, to operate for the benefit of all if this is considered advisable as in the present situation with the Army handling chemical and biological functions for the Department of Defense. * * *

"It would be my opinion that in the unified commands there would be a high degree of consolidation and standardization of supplies, equipment, forms procedures, regulations, and so forth, in order to have maximum flexibility to provide for free exchange between the commands and to save on staff, transportation facilities, and so forth.

"In order that there will be no confusion the amendment specifically states that supply and service activities shall not be considered as being major combatant functions within the terms of the bill." See Congressional Record for June 12, 1958 (daily), at page 9929. See also other remarks to the same effect at pages 9927 through 9931 and in the Record for June 11, 1958, at pages 9810 to 9815.

From the language of the statutory provision referred to and its legislative history, it is clear that the Secretary of Defense is not only authorized to provide for the consolidation of supply management administration but that he has a congressional mandate to do so. The establishment of the Defense Supply Agency as the organization to centrally control the supply management of textiles and clothing as well as other common use items is entirely consistent with the literal wording of the statute and its intended purpose.

Concerning the second question presented, it is clear, if the statutory provision referred to above is not sufficient of itself, that other portions of the Department of Defense Reorganization Act of 1958 provide ample authority for the Secretary of Defense to control the introduction of new clothing items into the supply system. Subsection 171a(c)(1) of title 5, United States Code, provides that the Secretary of Defense shall take appropriate steps to provide in the Department of Defense for more effective, efficient, and economical administration and operation and to eliminate duplication. And subsection 171a(c)(7) of title 5 provides that:

"(7) Each military department (the Department of the Navy to include naval aviation and the U.S. Marine Corps) shall be separately organized under its own Secretary and shall function under the direction, authority, and control

of the Secretary of Defense. The Secretary of a military department shall be responsible to the Secretary of Defense for the operation of such department as well as its efficiency. Except as otherwise specifically provided by law, no Assistant Secretary of Defense shall have authority to issue orders to a military department unless (1) the Secretary of Defense has specifically delegated in writing to such an Assistant Secretary the authority to issue such orders with respect to a specific subject area, and (2) such orders are issued through the Secretary of such military department or his designee. In the implementation of this paragraph it shall be the duty of each such Secretary, his civilian assistants, and the military personnel in such department to cooperate fully with personnel of the Office of the Secretary of Defense in a continuous effort to achieve efficient administration of the Department of Defense and effectively to carry out the direction, authority, and control of the Secretary of Defense."

The Committee of Conference in its report accompanying H.R. 12541, House Report No. 2261 dated July 23, 1958, explained the purpose of section 171a(c)(7) as follows:

"The House and Senate conferees agreed to language which provides that each military department (the Department of the Navy to include naval aviation and the U.S. Marine Corps) shall be separately organized under its own Secretary and shall function under the direction, authority, and control of the Secretary of Defense. In addition, the Secretary of a military department will be responsible to the Secretary of Defense for 'the operation of his department as well as for its efficiency.'

"That part of the Senate amendment which made each Secretary responsible to the Secretary of Defense for the 'efficient and economical operation' could have been construed as words of limitation with respect to the responsibility of the military Secretary. Thus, under this portion of the conference report, the military Secretary will be responsible to the Secretary of Defense for the entire operation of his department as well as its efficiency.

"Likewise, the House and Senate conferees agreed that no Assistant Secretary of Defense would have authority to issue orders to a military department except as provided in the conference report. Under the conference report, no Assistant Secretary of Defense can issue an order to a military department unless two requirements have been fulfilled:

"(1) The Secretary of Defense must specifically delegate to such an Assistant Secretary in writing the authority to issue orders with respect to a specific subject area, and

"(2) Such orders must be issued through the Secretary of the military department or his designee.

"The only exception to these requirements is in cases where there are specific provisions of other law which grant Assistant Secretaries of Defense the right to issue orders.

"The House and Senate conferees agreed to the remainder of that portion of the Senate amendment which provides that it shall be the duty of such military Secretary, together with his civilian assistants and military personnel of his department to cooperate fully with personnel of the Office of the Secretary of Defense in a continuous effort to achieve efficient administration of the Department of Defense and to effectively carry out the direction, authority, and control of the Secretary of Defense.

"Thus under the conference report—

"(1) Each military department will be separately organized under its own Secretary;

"(2) Each military Secretary will be responsible to the Secretary of Defense for the operation of that military department;

"(3) No Assistant Secretary will issue orders to a military department unless the Secretary of Defense has given him a specific delegation of authority in writing in a specific area;

"(4) Even when an Assistant Secretary of Defense issues an order based upon his specific delegated authority, such an order must be 'issued through' the military Secretary or his designee.

"As a result, the original position of the House, which sought to retain the separate identity of the military departments, has been sustained. In addition, the Assistant Secretaries of Defense will not be senior to, or have greater authority than, the military Secretaries. The Assistant Secretaries of Defense will, for practical purposes, remain as principal staff assistants to the Secretary of Defense, and even when acting for the Secretary of Defense, their decisions will be 'issued through' the military Secretaries. This chain of civilian command

will permit an orderly administrative procedure, and will eliminate the confusion that might otherwise have developed if statutory restrictions on the authority of the Assistant Secretaries of Defense had not been provided, and if the orders issued by such assistants were not channeled through the military Secretaries."

Thus, it is clear that the Secretary of Defense was given full control over the entire Military Establishment while maintaining each military department as a separate organization under its own Secretary. Although this control is somewhat limited by subsection 171a(c)(1) of title 5, so far as combatant functions are concerned, the limitations of that section are not applicable to the function of managing the supply of clothing and textile material.

The only question remaining is whether the Secretary of Defense has delegated his authority to control the introduction of new clothing items into the supply system to the Director of the Defense Supply Agency. Pursuant to the National Security Act of 1947, as amended, and the provisions of section 2202 of title 10, United States Code, requiring that funds for all phases of supply management be obligated only under regulations prescribed by the Secretary of Defense, the Secretary issued Department of Defense Directive No. 5160.12, dated August 10, 1960, further implementing single manager assignments for the purpose of eliminating duplication of effort between military departments and to improve the effectiveness and economy of supply and service operations throughout the Department of Defense. Under the directive the single managers were the Secretaries of the various military departments designated by the Secretary of Defense to be responsible for specified commodities or common service activities. By Directive No. 5160.15, dated July 13, 1961, the Secretary of the Army was designated as the single manager for clothing and textile material. The Secretary of the Army was responsible generally for all phases of clothing and textile material supply management including the standardization of such items to the maximum feasible extent. The single manager was not, however, authorized to unilaterally resolve disagreements arising among the military services as a result of his assignment but, rather was required to submit any such matter to the Assistant Secretary of Defense (Installations and Logistics) for resolution.

The functions and responsibilities of the single manager for textiles and clothing were transferred to the Defense Supply Agency by Directive No. 5105.22, dated November 6, 1961. With respect to standardization of items, the Secretary of Defense delegated to the Director, Defense Supply Agency, the function of directing item simplification for all items assigned to the Agency. It would thus appear that the Secretary of Defense has delegated sufficient authority to the Director, Defense Supply Agency, for the Director to control the entry of clothing items into the supply system. It should be noted, further, that this delegation of authority also carries with it the requirement for maintaining close relationships with all components of the Department of Defense and with the Defense Supply Council, established by the same directive and composed of the Deputy Secretary of Defense, the Secretaries of the three military departments, the Chairman, Joint Chiefs of Staff, and the Assistant Secretary of Defense (Installations and Logistics), who under Directive No. 5126.22, dated January 30, 1961, was delegated responsibility for cataloging, standardization, and quality control of items in the supply system.

Accordingly, each of the questions presented is answered in the affirmative.

Sincerely yours,

JOSEPH CAMPBELL,
Comptroller General of the United States.

APPENDIX

APPENDIX 1

THE DEFENSE SUPPLY AGENCY

A little over a year ago, the Secretary of Defense announced his decision to establish the Defense Supply Agency. Within 3 months, the agency assumed control over the bulk of its assigned activities. Today, it comprises a major segment of the Defense Logistic Establishment.

PRE-DSA ORGANIZATION

Prior to the establishment of the Defense Supply Agency, the Secretaries of the military departments were designated single managers of selected supply and service activities for all components of the Department of Defense. Their responsibilities were carried out by separately organized operating agencies within their respective Departments. These agencies achieved an enviable record of effective support to the military services with significant reductions in operating costs and inventories. Their experience demonstrated the merits of a single agency furnishing common supplies and services to all military departments.

At the time DSA was organized (fig. 1), three commodity managers were assigned to the Navy, of which one, industrial, was still in the process of assuming management of assigned commodity classes. Five commodity managers and one service manager were assigned to the Army. Two of these, automotive and construction, were still in the early phases of activation. What is now the Electronics Center is shown for this purpose in the Air Force. It was organized after the establishment of DSA as a DSA commodity center at Gentile Air Force Depot. The most recent assignment is the Industrial Plant Equipment Center. The Armed Forces Supply Support Center administered the Defense-wide cataloging, standardization, and materiel utilization programs and conducted integrated Management studies. Not shown here are the 34 property disposal offices distributed among the military departments which were also scheduled for transfer to the Defense Supply Agency. Omitted also are the Military Air and Military Sea Transport Services which, though single-manager agencies, remained in the Air Force and Navy Departments.

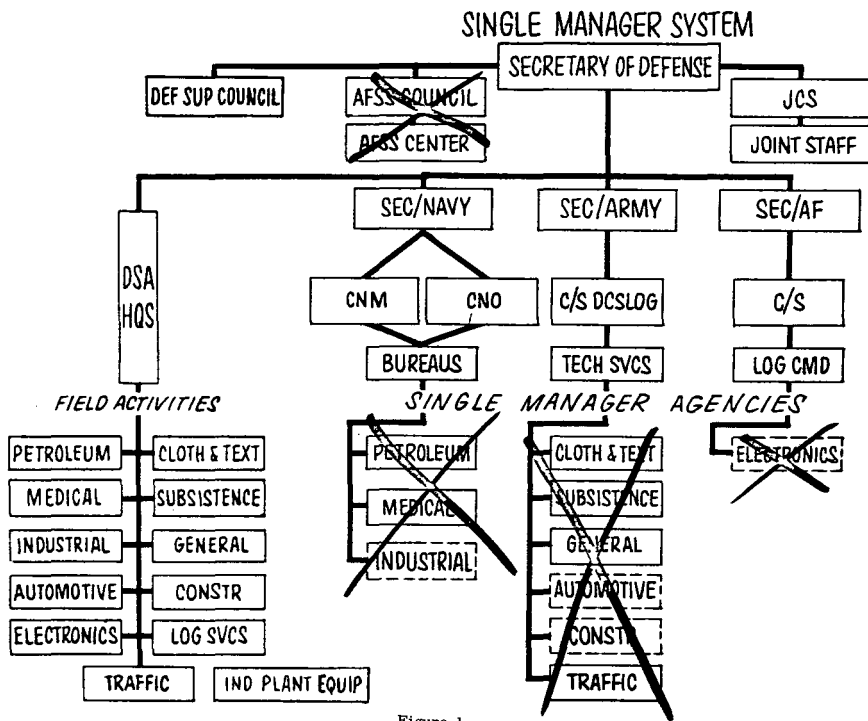


Figure 1

DSA ORGANIZATION

Conversion of the departmental single managers to field activities of the Defense Supply Agency encountered no major problems. They were taken over in place with assigned personnel, funds, equipment, and facilities. Their operations continued without interruption under a new and shortened chain of command. This was also true of the operational elements of the Armed Forces Supply Center and the property disposal activities which were assigned to the Logistics Services Center.

Only in the case of headquarters was it necessary to create an entirely new organization. During the first 3 months of the Agency's existence, the headquarters staff was comprised solely of a planning group, most of whom were on loan from the military departments and the Office of the Secretary of Defense. Selection and assembly of a permanent staff began after the initial organization and staffing plan was approved in December.

The headquarters staff exercises general supervision and control over all activities assigned to DSA (fig. 2). Its key personnel exemplify the joint military staffing principle and illustrate the broad and varied experience upon which we are able to draw. Each of the military departments and services is represented at the directorate or immediately subordinate level. The Assistant Director, Plans, Programs, and Systems, exercises central supervision over assigned functions throughout the headquarters staff and field activities.

Three executive directorates—Procurement and Production, Supply Operations, and Logistics Services—supervise primary operational functions. The offices of Comptroller, Personnel and Training, Administration, Counsel, and Inspector General perform other normal staff functions of a major headquarters.

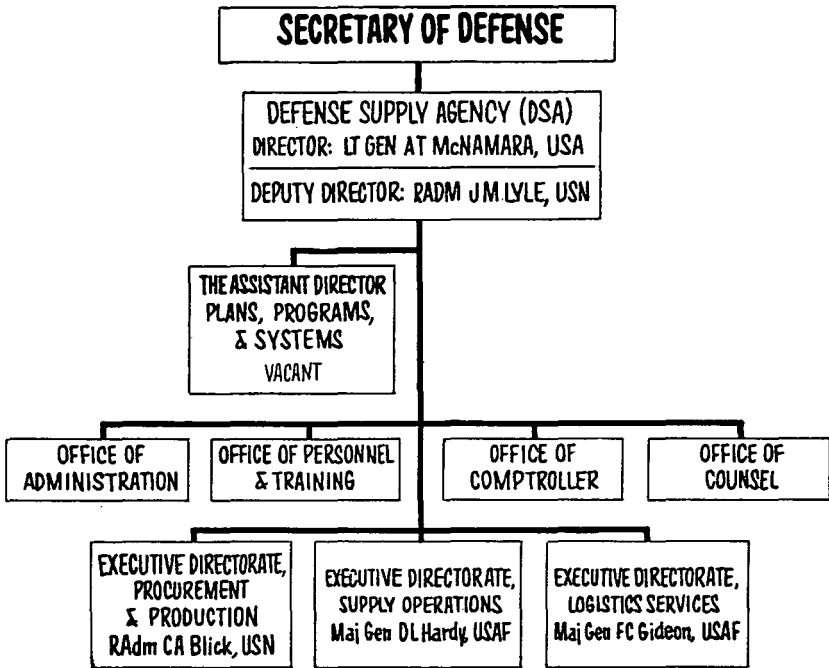


Figure 2

FIGURE 3

Major field activities

Principal command	Department of origin	Commander and service
Automotive.....	Army.....	Capt. V. C. Bertelsen, Navy.
Clothing.....	do.....	Maj. Gen. O. C. Harvey, Army.
Construction.....	do.....	Brig. Gen. W. A. Huntsberry, Army.
Electronics.....	Air Force.....	Brig. Gen. W. W. Veal, Air Force.
General.....	Army.....	Maj. Gen. V. J. MacLaughlin, Army.
Industrial.....	Navy.....	Rear Adm. J. S. Dietz, Navy.
Logistics Services.....	Department of Defense.....	Col. C. C. Case, Jr., Army.
Medical.....	Navy.....	Rear Adm. W. L. Knickerbocker, Navy.
Petroleum.....	do.....	Rear Adm. T. L. Becknell, Jr., Navy.
Subsistence.....	Army.....	Maj. Gen. T. B. Evans, Army.
Traffic Management Service.....	do.....	Maj. Gen. I. S. Morris, Army.
Industrial Plant Equipment.....	(1).....	(2)

¹ New.

² Not yet assigned.

FIGURE 4

DSA assumption of responsibilities (end of month or total for month)

	January 1962 actual	January 1963 actual	End fiscal year 1963 projected	End fiscal year 1964 projected
Items managed (thousands).....	87	905	1,064	1,468
Inventory (millions).....	1,588	2,003	2,223	2,149
Procurement (millions).....		12,824	2,971	3,372
Total personnel.....	9,523	24,459	28,482	29,437

¹ Total January to December 1962.

The field establishment (fig. 3) is comprised of 12 principal commands. These are identified by name, former departmental affiliation, and commander in the accompanying tabulation. With the exception of the Automotive and Logistics Services Centers, all are commanded by officers of the services from which their respective agencies were transferred. Service representation among the commanders will change as current tours expire and billets are rotated.

PROGRESS AND PROSPECTS

DSA has made rapid progress in the assumption of assigned missions (fig. 4). Last January, it took over wholesale management of 87,000 items with an inventory value of \$1.5 billion, and an annual rate of procurement of approximately \$2.3 billion. The number of items managed reached 472,000 at the end of January and will exceed 1 million by next June, or more than one-fourth of the total number of centrally managed items in the Department of Defense. Inventory value will rise to \$2.22 billion and the annual rate of procurement to \$2.97 billion. The transfer of personnel, both headquarters and field, has proceeded in phase with the assumption of management tasks. As of the end of January 1962, over 9,500 military and civilian personnel had been transferred to DSA. Transfers will exceed 28,400 by next June. By the end of fiscal year 1963, DSA will have taken over management of all assigned commodities and services, except electronics materiel and industrial plant equipment. Takeover of electronics materiel is currently scheduled for completion in September 1964, although we now have tentative plans which may permit completion at an earlier date. Takeover of industrial plant equipment will be completed by July 1964.

DSA OBJECTIVES

When Secretary McNamara appointed me Director of the Defense Supply, he established two primary objectives for my organization:

First, to insure effective and timely support of the military services in the event of mobilization, war, or other national emergency, as well as in peacetime;

Second, to furnish this support at the lowest feasible cost.

The order in which these objectives are stated is not accidental. It reflects the priority which governs all DSA programs. This priority and these objectives also govern the criteria against which DSA's achievements will be measured.

DSA ACHIEVEMENTS

The greatest single achievement of the Defense Supply Agency to date is that it has continued support to the military services without interruption or impairment, during a period of major organizational change. This has involved not only the extension of central control over a group of heterogeneous agencies and the development of uniform policy, standards, and procedures, but also some major special projects such as—

Activation of the Electronics Supply Center, encompassing the largest and technically most complex commodity group yet brought under integrated management;

Moving the world's largest cataloging agency;

Negotiation of interservice support agreements for all centers collocated with military department activities;

Completion of studies and initiation of actions to give effect to decisions based thereon for the distribution system, the management of industrial production equipment, and chemical supplies, as well as a pilot study on aeronautical supplies; and

Selection and preparation of a headquarters site, and initial movement thereto. Meanwhile, field activities have maintained the momentum established by the single-manager agencies in improving operational effectiveness and reducing costs.

The DSA must look to the future for its major accomplishments. Some have been anticipated in budget actions or approved staffing plans and, in that sense, are firm. The President's budget for fiscal year 1963 was based upon the expectation that the functions transferred to DSA would be performed for \$27.7 million less than the budgeted cost of performing the same functions within the military departments (fig. 5). The Congress assessed an additional reduction of \$2.7

million, making a total budget cut of \$30.4 million, related principally to a reduction of 3,481 civilian personnel spaces. Consolidation of the Army and Marine Corps clothing factories has produced a saving of 218 additional personnel spaces. Additionally, the requirement for the final increment in the buildup of our headquarters staffing to the previously planned level, is being provided for through a corresponding reduction in field spaces. The stock fund financial plan provides for a \$233 million drawdown in long supply stocks during fiscal year 1963.

MANAGING THE DSA PROGRAM

The DSA management program recognizes that neither the achievements anticipated in the fiscal year 1963 budget nor those foreseen for the more distant future will occur by themselves. All staff and field activities are engaged in an intensive search for opportunities to increase support effectiveness, to reduce costs, or to introduce other management improvements. Opportunities for improvement are converted to realistic goals in quantitative or measurable terms, wherever feasible. Interim targets are being established annually, quarterly, and in some instances, monthly. Responsibility for achieving targets and goals is being pinpointed by staff element and field activity. Management attention will be focused continuously upon established goals through prompt reporting and review of results. Much of the information required for this purpose is being furnished in a monthly selected management data report. A copy of this report is included in the materials distributed to you. This approach is consistent with the requirements established by Secretary McNamara for the defensewide cost reduction program. It is being applied as well to all other DSA programs.

FIGURE 5

Major cost reductions, fiscal year 1963

Reduction in fiscal year 1963 budget:	<i>Millions</i>
President's budget.....	\$27.7
Congressional cut.....	2.7
Personnel reductions:	<i>Number</i>
Budgeted.....	3,481
Clothing factory.....	218
Stock fund inventory:	<i>Millions</i>
Drawdown.....	\$229

PROCUREMENT

In the procurement area, we are giving major attention to increased competition, value engineering, small business, and improvement in the procurement process. Some improvement appears feasible in the relatively high percentage of competitive awards for the commodities DSA now procures (fig. 6). Our goal is to raise the current 93 percent competitive rate to 94 percent through broadening the base of competition and substituting competitive for sole source awards. Cost reductions totaling \$3 million will accrue this fiscal year through these measures, with a 3-year cumulative goal of \$6 million.

Value-engineering—the elimination of “gold plating” in specifications—also presents attractive opportunities. Despite limited technical resources, some progress has already been made. Cost reductions aggregating \$2 million are expected this year. A \$10 million cumulative goal has been established for the 3-year program. Additional opportunities will be presented as new commodities are assigned. To reap the benefit of desirable changes normally requires some adjustment in item specifications. This is the responsibility of the military departments, since it is so closely related to qualitative requirements over which they have exclusive jurisdiction. Accordingly, we must rely upon the departments for prompt action where desirable changes can be made without impairing performance.

The small business program is now in process of thorough review. Plans include expanded use of the trade press and other media, opportunity fairs, seminars, and clinics to stimulate increased participation by small firms in competition for contract awards. Annual and longer range goals are now in process of development as part of the defensewide program.

FIGURE 6.—*Procurement objectives*

[Millions of dollars]

	Goals	
	Fiscal year 1963	3 years
Increased competition:		
Broaden base of competition.....	\$1.0	\$5.0
Convert sole source to competitive.....	\$3.0	\$6.0
(Fiscal year 1962 rate—93.1 percent).....	\$3.8	\$4.1
Value engineering.....	\$2.0	\$10.0
Small business: fiscal year 1962 award ratio 46.5 percent.....	\$5.7	-----

NOTE.—Programs are underway to improve the procurement process through: Management reviews, system study, ADPE applications, quality control.

Projects already completed or underway to improve the procurement process include periodic reviews of procurement management as part of the Defense-wide program; a comprehensive study of the procurement system; the application of automatic data processing techniques to bid evaluation and data flow; and increased emphasis on quality control. While it is not feasible to assign dollar goals to these activities, real payoffs can be expected in reduced procurement leadtime, better prices, more reliable products, and more effective direction and control of the process as a whole.

DISTRIBUTION SYSTEM

We have completed and forwarded to the Secretary of Defense recommendations for a future distribution system for DSA-managed commodities, based upon a comprehensive review of the existing system (fig. 7). DSA commodities are now stocked in some 77 installations scattered through the continental United States, including the 32 major installations shown on the accompanying map. The DSA plan calls for seven principal distribution depots so located as to insure prompt and effective support of assigned continental and oversea customers (fig. 8). Two depots, Philadelphia and Dayton, will specialize in clothing and textile and electronics materiel, respectively. The depots at Norfolk and Oakland will serve fleet and Navy oversea installations.

This new system has been approved by the Secretary of Defense. Phased relocation of commodity inventories into the proposed distribution pattern is scheduled through fiscal year 1964, to take maximum advantage of attrition and permit orderly adjustment of personnel and support service. The system, when installed, will insure more effective support of users as well as significant operating economies.

old NETWORK OF DISTRIBUTION FACILITIES FOR DSA COMMODITIES

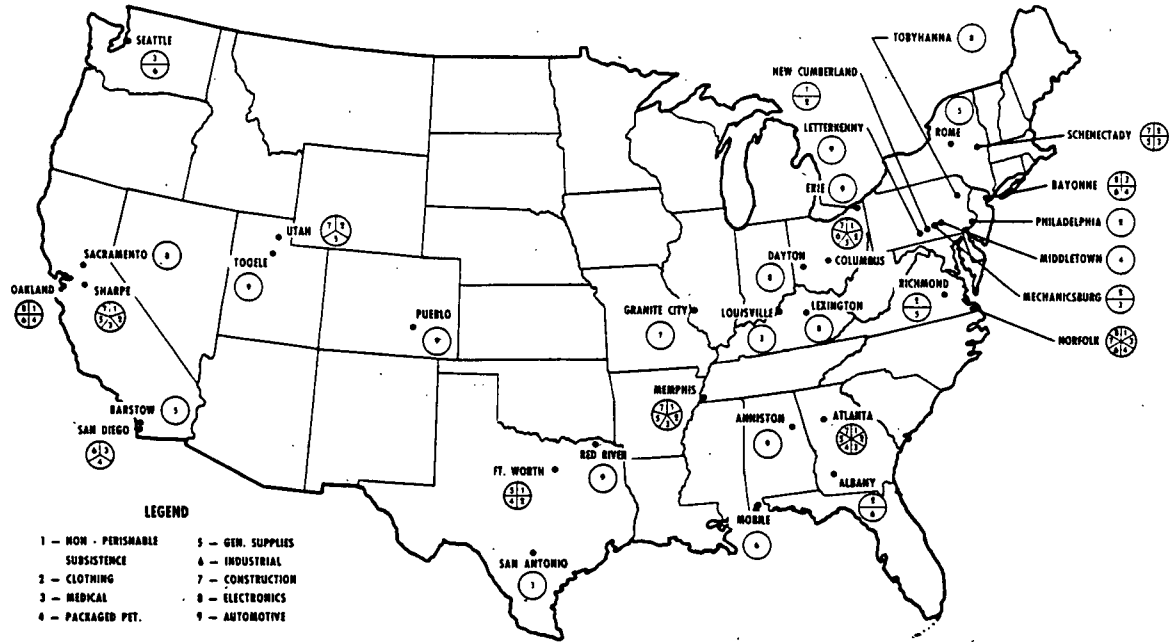


Figure 7

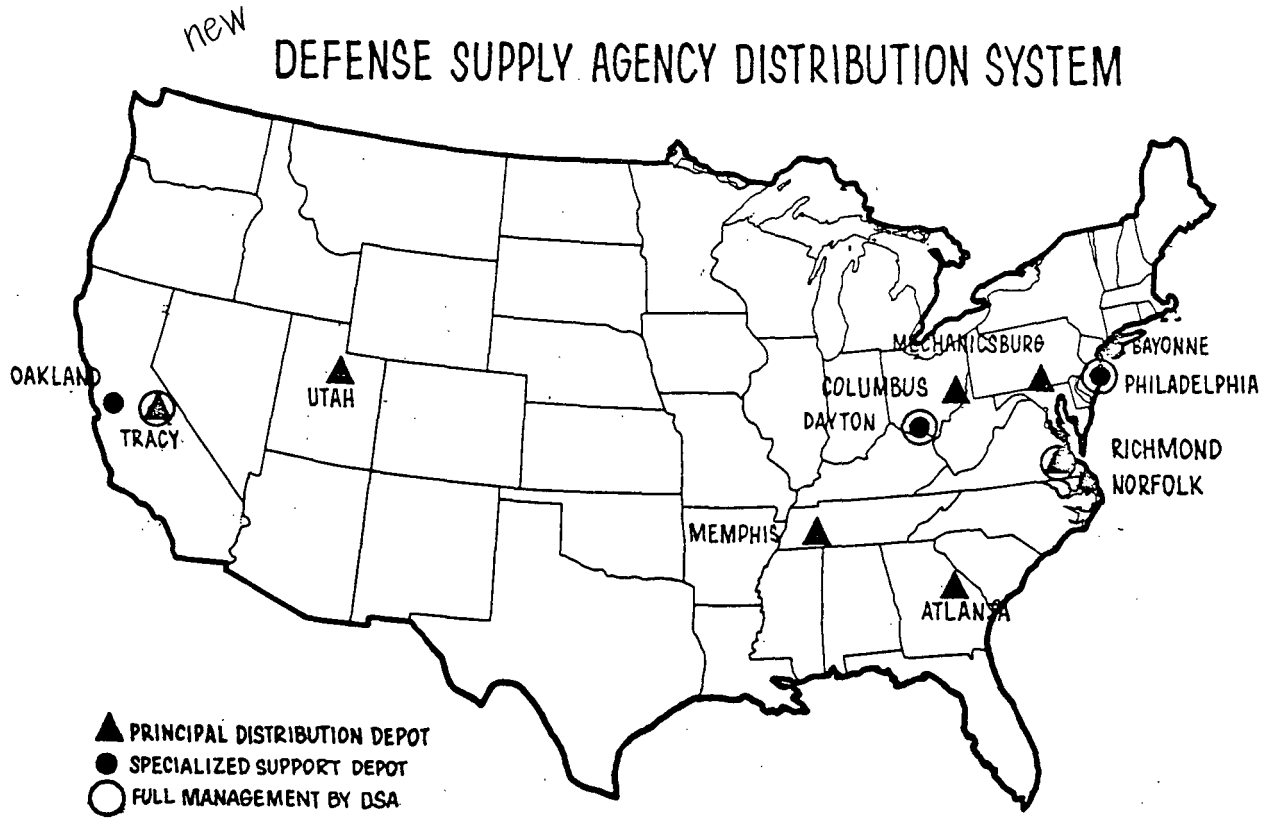


Figure 8

INVENTORY CONTROL POINTS

Control of DSA inventories is currently distributed among nine supply centers (fig. 9). The centers took over inventory control functions for assigned commodities previously performed by the single managers. Their primary function is to compute replenishment requirements for assigned items; maintain complete records of inventory status and transactions; receive and edit requisitions; and direct shipment or procurement action, as appropriate. More than 3,000 personnel are employed in this activity at all centers. Other personnel at the typical center are engaged in such related activities as cataloging, standardization, procurement, and installation management. The commodities assigned to the several centers were determined in separate studies conducted over a 6-year period. Each study was addressed to the peculiar circumstances of a particular commodity area. Assignments to specific military installations were governed, in part, by the location of related departmental functions and, in part, by the availability of space and facilities. Only by accident could these piecemeal actions have produced an optimum system for all common supplies. There are wide variations in numbers of items managed as well as various mixtures of technical, personnel-related, and bulk materiel items. Customer service can be improved and operating costs reduced through a redistribution of commodity assignment and possibly some change in the number and location of control points. Changes will be made only after careful study and consultation with all interested agencies.

INVENTORY CONTROL POINTS (ICP)

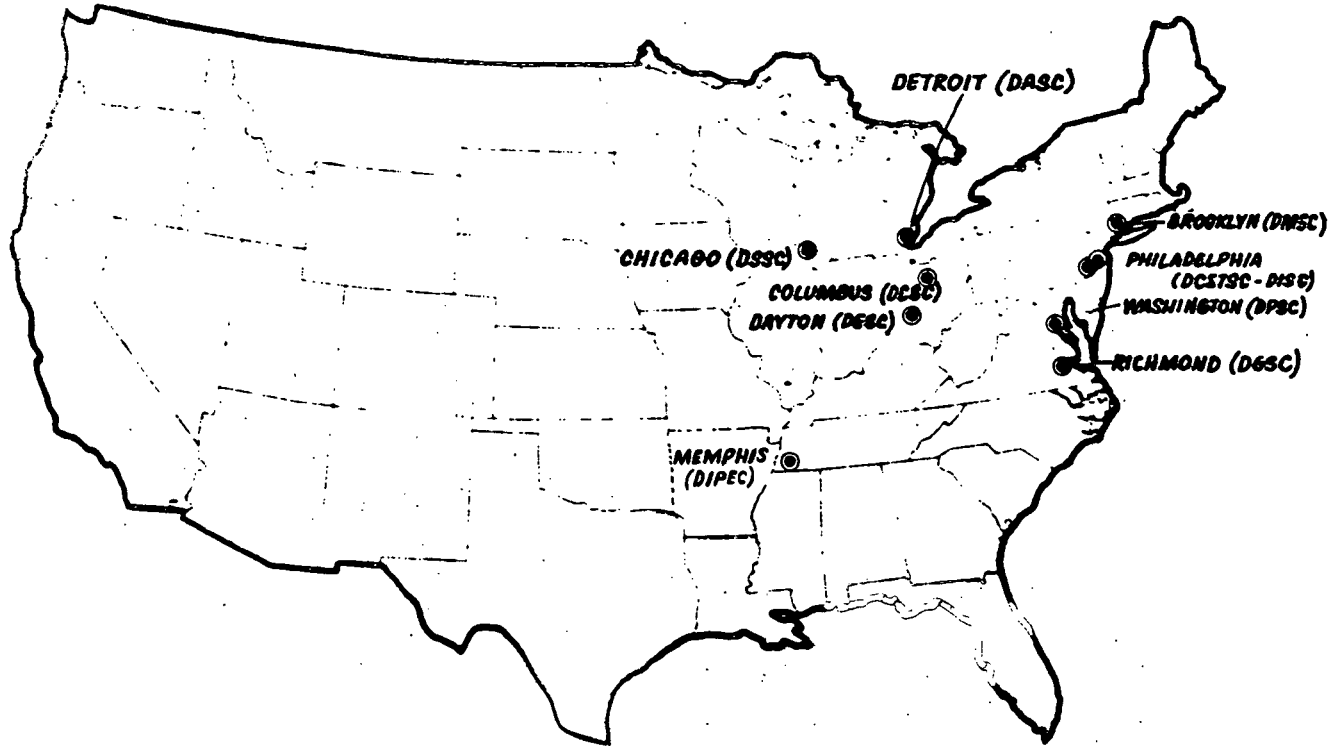


Figure 9

ITEM REDUCTION

We have given major attention over the past 9 months to reduction in the number of items in assigned commodity classes (fig. 10). As a result of identification of duplicate or similar items and standardization actions, decisions to eliminate 6,000 items were made in the first 6 months of this calendar year. During the next 6 months, 20,000 additional decisions were made. The 26,000 decisions made in the 8-month period results from a review of 75,000 items. The goal is a total of 33,000 decisions by the end of fiscal year 1963. Virtually all decisions to date have been made at DSA supply centers in agreement with military department counterparts.

The figures cited for decision already made as well as projections for the balance of this fiscal year omit the electronics classes. As these and other new classes are transferred, and with the cooperation of the military departments, more ambitious goals can be achieved in future years.

ITEM REDUCTION DECISIONS

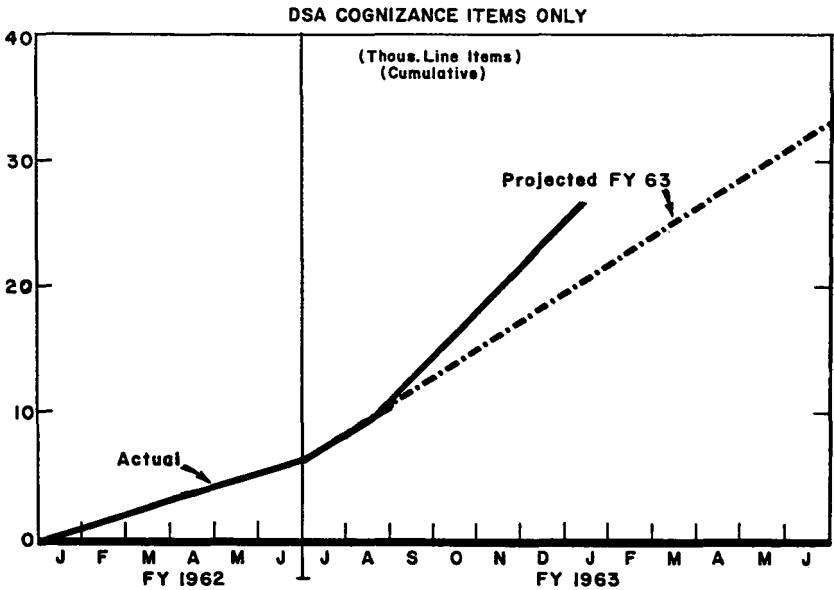


Figure 10

MATERIEL UTILIZATION

The Defense Logistics Services Center has given major emphasis to the redistribution of materiel in long supply in administering the materiel utilization program. Materiel valued at \$208 million was redistributed among the military departments in fiscal year 1961. This figure rose to \$321 million in fiscal year 1962. The goal for fiscal year 1963 is \$350 million (fig. 11).

REDISTRIBUTION OF LONG SUPPLY

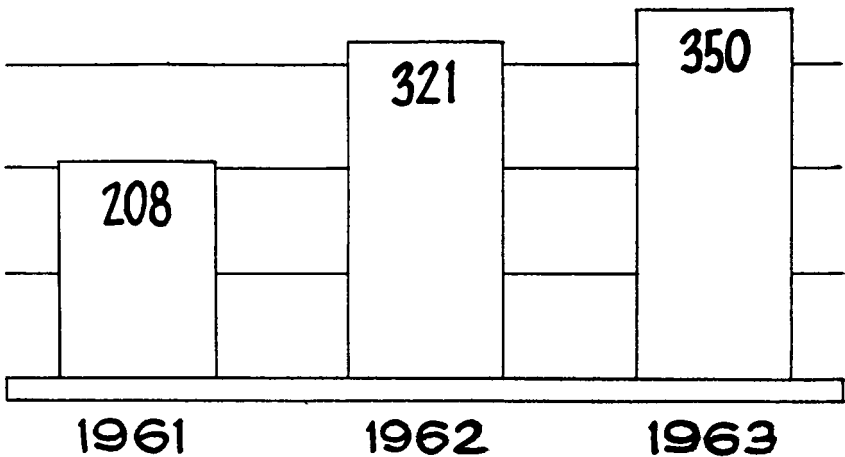
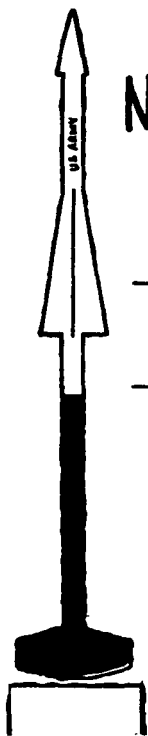


Figure 11

Recent experience with the phaseout of the NIKE-AJAX system illustrates the potential payoff from a diligent search for opportunities to use materiel which would otherwise be released for disposal (fig. 12). In April the Logistics Services Center distributed information furnished by the Army Ordnance Major Item Management Agency describing electronics and other equipment which would become available upon phaseout of the AJAX system. Initial responses resulted in redistribution of \$16 million worth of equipment. When demand appeared to be drying up, an intensive search was initiated for further use of the equipment. These efforts resulted in the redistribution of an additional \$16 million worth. Further requests for equipment valued at \$19 million are now in process of review. Additional payoffs can be expected as other sets of equipments are phased out in 1963 and 1964. We have also asked the military departments to advise us of other planned weapon system phaseouts where our "brokerage" services might be used.

NOTE.—As of March 1, 1963, \$63.5 million worth of NIKE-AJAX equipment has been reutilized.

The Defense Logistics Services Center initiated a pilot test on November 1 of Project Plus, a new mechanized procedure designed to speed up and increase the redistribution of materiel in long supply. The computer facilities and management data files of the Center will be used to match reported long supply assets against user requirements to detect opportunities for redistribution before procurement action is initiated. The test will be completed in March 1963.



NIKE-AJAX PHASEOUT

Redistribution of Equipment	Millions
Initial Effort	\$ 16
Renewed Effort	
Additional redistribution	16
In process	19
To Date	\$ 51
<i>FUTURE</i> - additional sites to be phased out in 1963 & 1964	

Figure 12

PROBLEMS AND OPPORTUNITIES

DSA has made sound progress to date and looks forward to continued progress in the years ahead. This does not mean that we have not encountered problems. In fact, DSA inherited some major problems from the single managers and has discovered some new ones. Most of them are matters of concern to all of us. All present challenges and opportunities to remove impediments to further sound progress in logistics management.

STANDARDIZATION AND ITEM GROWTH

Continued rapid growth in the number of items in the Defense Catalog is one of our most urgent problems. The standardization program has made little progress in its solution.

The Defense Supply charter assigns responsibility to DSA for administration of the standardization program, to include recommending assignments, reviewing and evaluating the program, and effecting improvements. DSA is also charged with responsibility for "item simplification" for assigned commodities.

During the 33-month period between December 1959 and August 1962, the number of items in the Defense Catalog experienced a net growth of 510,000—an average of about 16,000 items per month (fig. 13). Of this growth, 340,000—exactly two-thirds—occurred in the commodity classes scheduled for transfer to DSA management. Within this latter group, some 240,000 occurred in the electronics classes. Construction and industrial classes accounted for net growths of 60,000 and 50,000, respectively. A net reduction of some 20,000 items occurred in the other integrated management classes, principally those assigned to the former single managers.

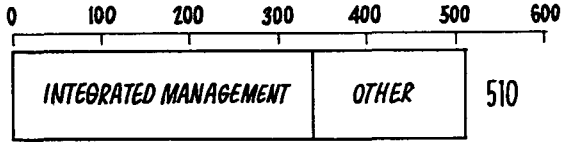
Solution of this problem calls for a vigorous attack by all concerned, particularly in such technical areas as electronics. Significant progress has been made in the elimination of items in the classes assigned to integrated managers, but better results are possible even in these classes. I have no hesitancy about using the authority delegated to me by the Secretary of Defense to make standardization

DEFENSE CATALOG ITEM COUNT (Net change)

DEC 1959 - AUG 1962

(THOUSANDS)

ALL CLASSES



INTEGRATED MANAGEMENT CLASSES

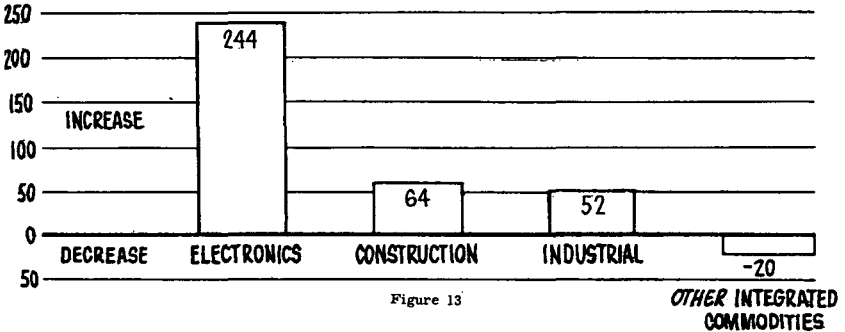


Figure 13

decisions for assigned commodities, where low risk items are concerned. A wrong decision in these instances would not have significant impact on military capabilities or morale. Quite different problems will be encountered in more technical areas.

Significant progress can be made in the technical areas, with necessary cooperation by all concerned. The Air Force introduced a promising screening program last November at Gentile Air Force Depot embracing a number of Air Force electronics classes (fig. 14). Almost 31,000 items have been eliminated according to latest reports. Elimination of an additional 15,000 is expected when the initial program is completed this month. During fiscal year 1962, the Gentile Depot also returned more than 32,000 items to requisitioners as "no buy" where preprocurement review showed that interchangeable or substitutable items were available. The depot reports that this screening continues to result in avoidance of procurement of 3,700 items per month. We are taking full advantage of experience gained in the program and expect to extend it to other classes as they come under DSA management.

ITEM REDUCTION IN ELECTRONICS

(Air Force & Electronics Center)

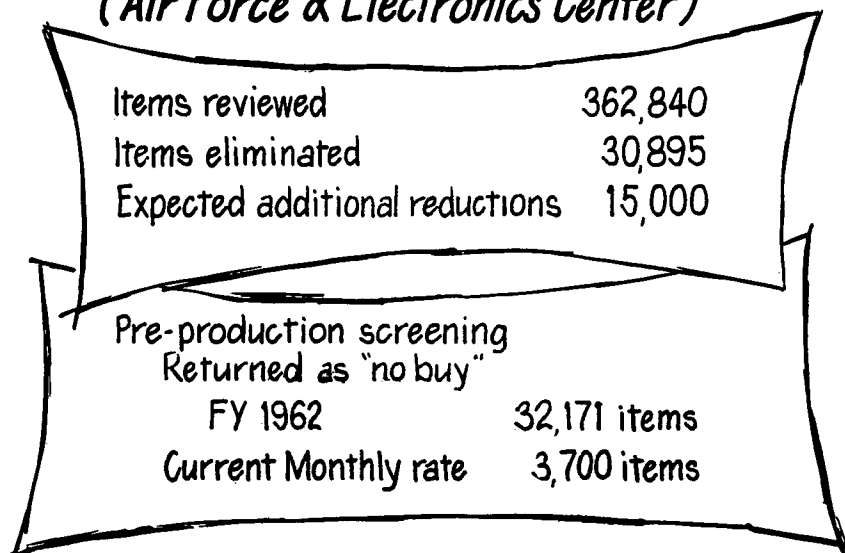


Figure 14

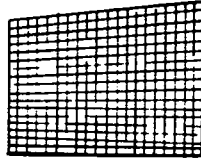
THE "FRONT SCREEN"

Elimination of existing items from the supply system through standardization, item simplification, or other action is one way to restrain item growth. An alternative approach of greater promise is to prevent the entry of new items in the first place. This requires an effective "front screen" to make sure that no new item enters the system if an equally acceptable existing item can be used instead (fig. 15).

New technical items are most likely to enter the DSA system through provisioning or related processes. To cope with this problem, it is essential that complete technical data on existing items be furnished to design and provisioning agencies. It also requires that technical data and assistance be furnished to DSA commodity managers by using agencies. A project undertaken by the Navy single manager and continued by the Industrial Center illustrates the potentialities of this approach. The project was confined to bearings used by the Navy and the Marine Corps and provided for a close review of all requests for new items. During the year ending September 30, a total of 3,812 requests were reviewed. Of these, 3,340 were satisfied by items already in the system. Additionally, the flow of technical data from the military departments in the course of this review has been of great value to the Industrial Center in other aspects of its mission.

Since standardization and provisioning decisions are directly related to qualitative requirements, all must be fully coordinated with the military departments. Military operational and combat considerations must determine which items should enter or be retained in the supply system. The same considerations also demand that supply support be facilitated by keeping the total number of items at the lowest feasible level. This is a joint responsibility. Delays which so easily creep into the coordination process can be avoided if all concerned devote sufficient management attention to it.

The "FRONT SCREEN"



NAVY/INDUSTRIAL CENTER

Results

- | | | |
|---|---------------------------------|------|
| 1 | New item requests | 3812 |
| | Existing item substitution | 3340 |
| 2 | Improved flow of technical data | |

Figure 15

SUPPLY EFFECTIVENESS

Supply reports through last July indicated that Defense Supply commodity managers were maintaining or improving the effectiveness rates established by the single managers. After the introduction of the new JCS-approved supply priorities on July 1, concurrent with the installation of milstrip, supply effectiveness rates, based on these new criteria, were not as high as formerly. Inquiries to date do not reveal that responsiveness to customers actually deteriorated. There appears to be ample evidence, however, that the supply system is not now fully geared to satisfy the time limits established in the new priority system. This is a matter of mutual concern. Since more than 90 percent of DSA-managed commodities are stored in and shipped from military department depots, these depots are responsible for insuring that supplies are shipped on time to satisfy the new priority system. Means must be found to insure that supply effectiveness rates are raised to and maintained at the higher levels now demanded. Even more important, since supply is not complete until the ultimate consumer receives what he needs, we must work together to insure smooth functioning of the total system from the wholesale to the final consumer level. If supply failures occur at the consumer level due to defects in the DSA system, we want to be the first to know about them.

REQUIREMENTS AND MATERIEL READINESS

DSA's primary requirements responsibility is for the computation of quantitative replenishment requirements for wholesale inventories which it manages. This is a normal function of any inventory manager. All DSA commodity managers now perform this function.

DSA has a legitimate concern as to the capability of its commodity managers to respond to emergency requirements of the military services. The basis of this concern was demonstrated in last year's military buildup. For example, supply effectiveness of the Clothing and Textile Center, at that time an Army single-manager agency, dropped below 80 percent from a normal rate of 93 to 95 percent. Many of the items found to be in short supply were items for which one or more of the services had indicated no mobilization requirement. While expedited procurement and supply action assured satisfaction of highest priority requirements,

the experience suggested the need for review of inventory levels in relation to potential emergency demands, particularly those resulting from peacetime force buildups.

We have recently undertaken a review of emergency response capabilities of DSA supply centers, with special emphasis on the impact of emergency force buildups. The military departments and the Joint Staff are assisting in the review. Recommendations as to measures required to correct deficiencies will be forwarded to the Secretary of Defense in the near future.

SUMMARY

In summary—

The Defense Supply Agency has cleared the hurdles inherent in planning for and assuming command over the activities assigned to it. It is now in a position to move progressively toward the achievement of the objectives for which it was established. Continued sound progress toward these objectives will require a spirit of teamwork throughout the Department of Defense. I shall see to it that this spirit prevails at all levels throughout the Defense Supply Agency.

Results of materiel management studies:

Industrial plant equipment

The Defense Industrial Plant Equipment Center (DIPEC) will begin operation in Memphis, Tenn., during March 1963, with the expectation of becoming fully operational by July 1964. DIPEC will centralize inventory knowledge of DOD assets and requirements for plant equipment, assuring responsive management of the task of purchasing, redistributing, repairing, and disposing of items of plant equipment. The military services will continue to manage plant equipment in use.

Chemical materiel

On November 16, 1962, the Secretary of Defense approved assignment to DSA, management of some 6,000 chemical items in 12 Federal supply classes with inventory value of \$75 million and annual procurement aggregating \$95 million. Management responsibility will be assumed by the Petroleum and Medical Supply Centers by July 1963.

Aeronautical materiel

The pilot study on aeronautical supplies resulted in a decision by the Secretary of Defense in December 1962 to conduct a full-scale study on a reduced scope. The study, launched in January, encompasses 150,000 items in 11 Federal supply classes with inventory value of \$6.1 billion. Completion of the study is scheduled for October 1963.

APPENDIX 2

STATEMENT OF SECRETARY OF DEFENSE ROBERT S. MCNAMARA—5-YEAR COST REDUCTION PROGRAM

A. FIVE-YEAR COST REDUCTION PROGRAM

With respect to the management of our materiel resources we have, during the past year, launched a formal 5-year cost reduction program which has as its objective the reduction of procurement and logistics costs through improved management practices. Specific quantitative cost reduction goals have been established for each of the principal areas of logistics management. Selected goals, in turn, have been established for the military departments and Defense agencies (i.e., DSA and DCA) so that our key logistics managers know exactly what is expected of them. These goals are admittedly ambitious and will be achieved only if all management levels in the Defense Department give them continuing, high priority attention. Accordingly, the service Secretaries and Agency heads have been directed to make a monthly or quarterly review of progress achieved and to report the results to my office.

The current cost reduction goals are summarized in the first three columns of table 1. The last two columns show the goals reported to the President last July. Management improvement actions instituted in fiscal year 1962 and planned for fiscal year 1963 should ultimately produce annual savings of about \$1.9 billion. Our goal for end fiscal year 1965 is to initiate actions which will increase the rate of savings to over \$3.4 billion per year. These are more ambitious goals than those reported to the President, but I believe that they can be achieved with a real effort on the part of all concerned. At any rate we intend to make the try.

As shown on table 1, we have grouped the cost reduction goals under three main headings:

1. *Buying only what we need*

(a) *Refining the requirements calculations.*—The most strategic time for insuring that we buy only what we need is obviously when we compute our requirements for end items and supporting parts and supplies.

(1) End item requirements: What weapons to acquire and what force levels to support are program decisions and are not included in this cost reduction program. However, significant opportunities for cost prevention exist in our requirements computations, i.e., making certain that end item requirements do not overstate pipeline transit times, replacement and consumption factors, or understate the post-D-day production potential. For example, a close review of pipeline requirements and post-D-day production potential has enabled the Army to reduce its 1964 requirements, including combat support, by approximately \$536 million, as shown in footnote 1 to table 1. Studies of these requirements calculations are continuing in all services and should result in further substantial reductions in end item inventory requirements.

(2) Requirements for parts and supplies: We now have almost 4 million items of this type in the supply system to support our troops and weapons systems. Each year we add several hundred thousand new items to our inventories and reorder approximately half of the items already on hand to meet peacetime consumption and balance out our mobilization reserve stocks. Current information regarding stocks on hand and their rates of usage must be maintained at over 1,000 installations, worldwide. The sheer magnitude of this task, and the natural tendency of each echelon to add safety factors to its stock requirements in order to avoid "deadlining" vital weapons, tend to inflate inventory levels. To offset this tendency, we are attempting to achieve more current and precise control of inventory levels through more effective use of electronic computers and high-speed communications systems, uniform application of the economic order quantity principle, concentration of inventory managers' efforts on high value items, and elimination of unnecessary safety factors from requirements computations. On the basis of reforms in the management of spare parts during the first 2 years, and further improvements we intend to achieve, we have been able to reduce the level of funds requested in the fiscal year 1964 budget by \$608 million. The largest portion of this reduction was in aviation and missile spares, engines and electronics items.

These actions, to be initiated in the fiscal years 1962 through 1965, to tighten inventory controls as well as to reduce the costs of manuals and technical data procured to operate and maintain new weapons systems, should produce recurring annual savings of about \$790 million, as shown on table 1.

(b) *Increased use of excess inventories.*—Another step being taken to insure that we buy only what we need is to utilize more fully the equipment and supplies already on hand. The continued existence of large excess and long supply stocks, currently valued at \$13 billion, has long been a matter of great concern to both the Congress and the Department of Defense. Tighter controls over requirements calculations should greatly reduce the generation of future excess materiel, but several years will be required to utilize or dispose of present stocks. Moreover, we will never be able to eliminate such excesses completely because of the dynamic character of weapons technology.

While we have been utilizing annually about 8 percent of the excess and long supply inventory to satisfy stock deficiencies, our studies indicate that we should be able to use even more. In fiscal year 1962, we increased the reuse of excess stocks by \$124 million over the fiscal year 1961 level. By the end of fiscal year 1963 we expect to be reusing more than \$200 million of excess stocks per year in lieu of new procurement. Our goal by the end of fiscal year 1965 is an annual rate of about \$435 million. Centralized screening of all reportable excess and selected long supply stocks, and of idle industrial production equipment, has been assigned to the Defense Supply Agency so that all inventory deficiencies and new procurement requirements can be checked against a central record, and idle assets promptly utilized.

(c) *Eliminating "goldplating" of technical specifications.*—Each of the military departments, the Defense Supply Agency and many defense contractors have established formal "value engineering" programs. These programs are directed to the elimination from technical specifications of specific requirements for materials, fabricating processes and quality standards which are not necessary for the proper functioning of the item.

For example, the Army uses annually hundreds of thousands of practice targets in the training of its troops. The cost of one item, known as the "kneeling target," was cut by 88 percent through the substitution of pasteboard for plastic. As a result, the cost of the last annual purchase of this item was reduced by \$700,000. Wherever possible, our objective is to make such revisions in the specifications of new items during the design stage so as to prevent at the outset the payment of price premiums.

During the first quarter of fiscal year 1963, the value engineering improvements reported by the services will avoid incurring new costs estimated at \$17 million. By the end of fiscal year 1963, we expect to save over \$64 million annually by these efforts. Our goal by end fiscal year 1965 is \$100 million annually.

2. *Buying at the lowest sound price*

Having assured ourselves that we are procuring only what we need, both quantitatively and qualitatively, our next objective is to minimize the cost of procuring these items.

(a) *Shifting from noncompetitive to competitive procurement.*—Failure to use competition more extensively in Defense procurement in the past has not only resulted in higher prices, but has also deprived us of the benefits of a broader industrial base among suppliers, both large and small. With the exception of commercial, off-the-shelf items, competitive buying is quite difficult; nevertheless, there are a number of ways to obtain more competition and we intend to exploit them fully.

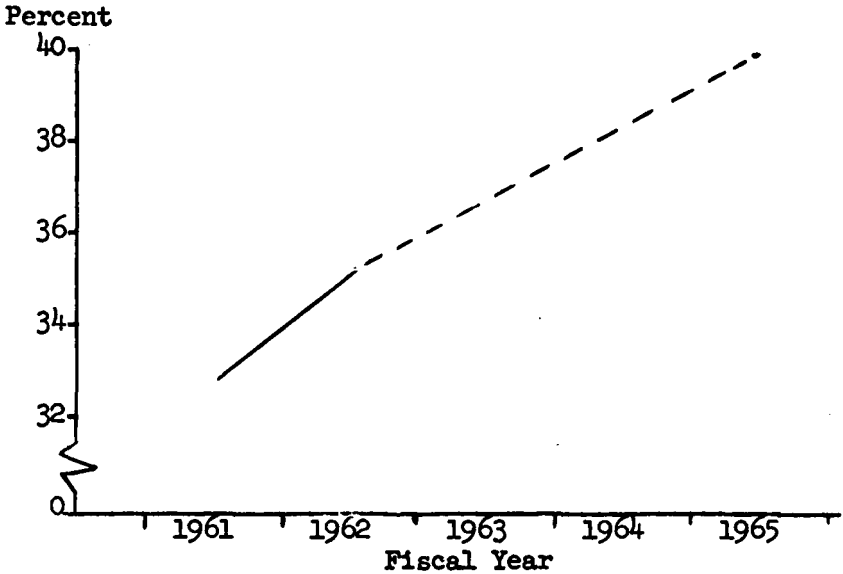
One method is "breaking-out" high value and high usage spare parts and components for separate procurement instead of buying them automatically from the prime contractor of the end item. "Break-out" requires detailed advance planning to insure that adequate technical and engineering data are available and to provide sufficient leadtime to search out qualified suppliers before new procurement is required. During the past year, our efforts have been concentrated on spare parts. As the first step, we selected three major purchasing offices buying aeronautical spare parts, and established separate staffs to identify the aircraft spares on which repetitive high value procurement was most likely. Preparations were then made, well in advance of the reorder date, to procure these parts competitively. This procedure worked well and enabled those three offices to increase the dollar-amount of these items bought competitively in fiscal year 1962 by 78 percent. We are now extending this system to other categories of spares.

In still another approach to this problem we are seeking to obtain competitive bids on more new items at the time they pass from development into production or, failing that, as early in the production phase as possible. In this fashion, we hope to avoid the payment of the price premium on the first large-scale production buy usually associated with sole-source procurement.

We have now established specific goals for each military department and DSA, expressed in terms of the percentage of procurement contracts awarded competitively in each commodity category.

In fiscal year 1961 the overall percentage was 32.9 percent and, in fiscal year 1962, 35.6 percent. Our goal by fiscal year 1965 is to reach 39.9 percent, which will require the shifting of about \$1.9 billion from sole-source to competitive procurement.

**PRICE COMPETITION AS A PERCENT
OF TOTAL DEFENSE PROCUREMENT**



Based on our experience to date and the studies of the General Accounting Office, we anticipate initial price reductions on the order of 25 percent upon transferring items to competitive procurement. We estimate that our progress to date in shifting to competitive procurement has saved \$190 million per year. By end fiscal year 1963, the annual rate of savings should reach \$289 million and if we can achieve the increase in competition targeted for end fiscal year 1965, there would be an annual saving of \$494 million. Detailed records will be kept on our major purchases so that we can report to the Congress the actual savings achieved by shifting from noncompetitive to competitive procurement.

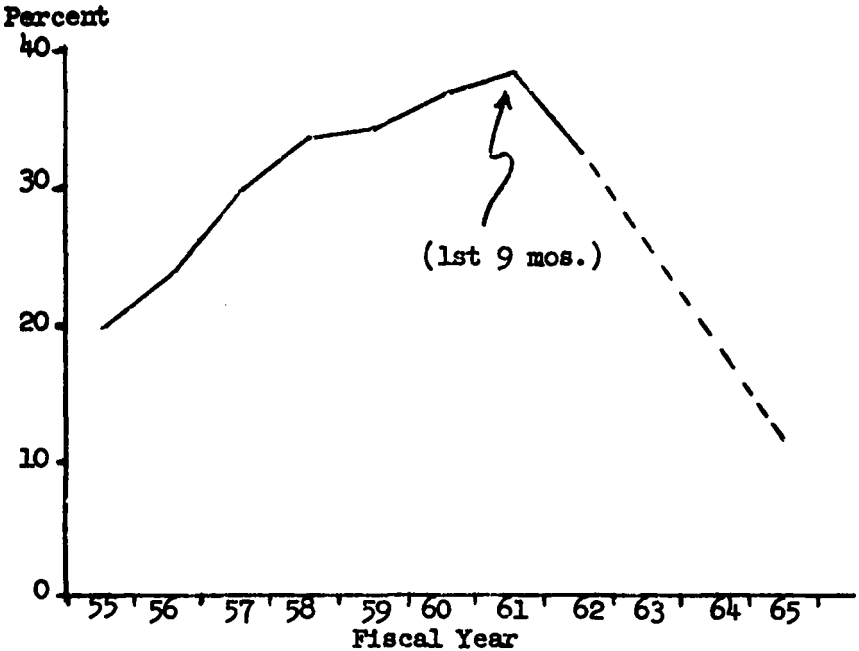
(b) *Shifting from cost plus fixed fee (CPFF) to fixed price and incentive contracts.*— Because CPFF contracts do not distinguish between good and bad planning, early or late completion, and tight or loose financial controls, they lead to the kinds of cost overruns which have resulted in some programs costing between 3 and 10 times the amount originally estimated and budgeted. This situation has often led to decisions to produce and deploy weapon systems where a contrary decision might have been made if the true costs had been known. Hence, we believe that, to the extent we are able to increase the use of fixed price and incentive contracts at the expense of the CPFF type, we will not only obtain a better product at a lower cost, but we will also be able to make sounder decisions on the selection of major weapon systems.

We have already achieved some success in moving away from the cost-plus-fixed-fee contract.

Although the proportion of such contracts rose steadily during the last decade, reaching a peak of 38 percent of total prime contract awards during the first 9 months of fiscal year 1961, this trend was arrested in the last quarter of 1961, and, in fiscal year 1962, was reduced to 32.5 percent. Our goal, a tough one, is to reduce such awards to 12.3 percent of total procurement by fiscal year 1965. Its achievement will require shifting about \$6 billion of procurement from CPFF to the preferred contract types.

We have now developed detailed targets for each military department and Defense agency by commodity category, and a reporting system is now in effect which enables us to measure progress toward these goals on a monthly basis. While only a rough estimate can be made of the benefits of shifting from CPFF to fixed price or incentive contracts, we believe that such action reduces final costs by at least 10 percent. We believe our progress to date has saved \$115

**COST-PLUS-FIXED FEE AS A PERCENT
OF TOTAL DEFENSE PRIME CONTRACTS**



million. Our goal is to raise this annual saving to about \$639 million through actions to be initiated by end fiscal year 1965.

3. Reducing operating costs

Over 1 million military and civilian personnel are involved in the operation of procurement offices, inventory control points, warehouses, maintenance activities, and transportation and communication services. Hence, this is an area which lends itself to achievement of substantial savings.

(a) *Terminating unnecessary operations*—By closing or reducing unneeded bases and installations.—As I have described on previous occasions, the need to review continuously our real property holdings against present and future requirements caused us to establish a permanent base utilization program. Early in calendar year 1961, we began evaluating all installation requirements on both functional and geographic bases, and these reviews are now being made annually.

To date, we have announced plans to close or reduce in scope 313 activities, of which 71 are located overseas and 242 in the United States. These actions, when completed, will release nearly 264,000 acres of land for nondefense use. The original acquisition cost of the land and the improvements was \$1.9 billion. Three important benefits result from these actions:

(i) There is a reduction in annual operation and maintenance costs. Savings reflected in the fiscal year 1964 budget for actions already announced are \$106 million.

(ii) Military personnel are released for other tasks. Through fiscal year 1964, over 11,000 military personnel will have been released for other essential assignments by base closure or reduction actions already announced. The military pay and allowance costs of these personnel are estimated at \$57 million. Thousands of additional military personnel will be released by similar actions for assignment to other tasks during the next 3 years.

(iii) The facilities released are turned to productive uses. The Treasury benefits directly from the proceeds of sale. When private interests acquire the property, a tax revenue benefit accrues to local communities and States.

When other Government agencies claim and use the property, it becomes unnecessary for them to request funds for new property acquisitions.

Actions anticipated through the end of fiscal year 1963 should produce an annual saving of \$292 million when completed. Our goal is to initiate actions by end fiscal year 1965 which will increase the annual rate of savings to \$442 million.

(b) *Standardizing and simplifying paperwork and procedures.*—We are in the process of taking several steps to expedite the massive paperwork operations associated with Defense procurement and supply activities. These actions fall into three main categories: standardization of requisitioning procedures; standardization of transportation and movement procedures; and reduction or simplification of reports required of defense contractors.

With respect to standardized requisitioning procedures, prior to July 1962, 16 different forms and systems were used to requisition supplies from Defense depots, whenever one service bought from another or from DSA or GSA. On July 1, 1962, a uniform system was adopted by all services, DSA and GSA. Important benefits in faster supply actions have resulted—benefits which were particularly important during the Cuban emergency. Moreover, when this new system—known as MILSTRIP (military standard requisitioning and issue procedures)—becomes fully operational, it is expected that clerical costs will be reduced by \$20 million annually by end 1965.

With respect to standardized transportation and movement procedures, a new procedure due to become operational July 1, 1963, will cancel 81 transportation documents now in use, and substitute a standard documentation system for all services. This system will eliminate four rewritings of shipping forms which now occur on each of the 450,000 shipments made each month to overseas users. Furthermore, this system—known as MILSTAMP (military standard movement procedures)—will expedite the movement of materiel, and cut related administrative and clerical costs by more than \$30 million annually by end 1965.

Finally, with respect to reducing the reporting burden on Defense contractors, we have undertaken a review of the administrative and technical report requirements, which now cost an estimated \$300 million per year. This review is aimed at simplifying and reducing these reporting requirements in collaboration with our contractors. By end fiscal year 1965, our goal is to achieve cost reductions from this source of approximately \$25 million.

(c) *Consolidating and increasing efficiency of operations.*—(1) The Defense Supply Agency: The creation of the Defense Supply Agency (DSA), on October 1, 1961, made possible significant economies in operating costs, as well as relieving the military departments of the burden of conducting procurement and supply activities, permitting the military departments to concentrate management attention on major systems directly related to their primary missions. Savings in personnel costs resulting from the consolidation of formerly separate overhead organizations have produced a reduction in the fiscal year 1964 budget request of \$33 million. We also anticipate a drawdown in DSA's inventories of \$232 million during this fiscal year, as stocks are consolidated and brought under central management. An additional drawdown of \$112 million is projected for 1964.

In the future, additional savings will result from the repositioning of DSA stocks in 11 primary distribution depots instead of the present 32. By end fiscal year 1965 we expect the value of these economies to grow to at least \$42 million annually. I have referred earlier to savings anticipated from DSA's screening of excess and long supply inventories and idle industrial production equipment.

(2) Communications system costs: The increasing dependence of modern military operations, including their command and control, on sophisticated, complex and expensive communications systems makes it imperative, from the viewpoints of both military effectiveness and cost, that we exercise the greatest prudence over our resources in this area. The increased management responsibility assigned to the Defense Communications Agency is directed at this objective.

We have prepared a plan and issued instructions for developing a single long-lines communication system for the use of the entire Department of Defense. This plan calls for cross-connecting all long-lines communications facilities, and this has now been accomplished. We have also consolidated all long-lines networks in continental United States, and intend to consolidate all overseas facilities by the end of this calendar year. Over the next 5 years, we hope to change over completely to maximum automatic switching, and equipment for this purpose is now being developed. Finally, in order to insure that we obtain the lowest rates for our leased private line communications facilities, we have also assigned to the Defense Communications Agency responsibility for managing, leasing and paying for all such facilities within and emanating from the continental United States.

By end fiscal year 1963 savings from these management improvements should reach \$16 million per year, increasing to \$25 million per year by the end of 1965. The fiscal year 1964 budget has been reduced by \$18 million.

(3) Reductions in transportation and traffic management costs: Several specific actions have been taken to lower transportation costs. We have continued to apply vigorously a policy of moving Defense cargo over routes which assure lowest landed cost. Intensive cost analyses of alternative methods of shipping household goods to and from overseas destinations have resulted in important rate reductions. Increased use of economy class passenger travel and lower international air travel rates have also permitted new economies.

As a result of these actions, annual savings of \$17 million should be realized by end 1963 and savings of \$23 million are reflected in the 1964 budget.

(4) Improved equipment maintenance management: Another area where increased management effort yields greater combat readiness and effectiveness as well as monetary savings is that of equipment maintenance—a function which annually costs about \$11 billion. Over the past 2 years, the Air Force has reviewed the prescribed maintenance requirements for most of its mission-essential aircraft, and has made a good start in determining the maintenance needs of the rest of its aircraft fleet. As a result, 4,400 man-years of maintenance work have been eliminated from the stated requirement. More important, by reducing the number of aircraft in maintenance status at any one time, 45 more B-52's and 31 KC-135's have been made available for operational use.

Both the Army and the Navy have undertaken similar programs of maintenance management improvement in their depots, shipyards, and overhaul and repair facilities. At present, special attention is being given by all services to establishing uniform maintenance standards for commercial type vehicles, of which we now have over 167,000 in use. Finally, to insure top-level attention in this area and to coordinate efforts of the entire Department, a full-time Deputy Assistant Secretary of Defense for Equipment Maintenance has recently been appointed.

As a result of all of these actions in the field of equipment maintenance, we should be saving about \$108 million per year by end 1963 and over \$300 million per year by end 1965.

(5) Administrative vehicles: Annual savings of about \$3 million by end 1963 are expected to be achieved in the management of administrative vehicles, rising to \$11 million by end 1965.

(6) Improvement in military family housing management: Our savings goal for end 1963, from this source, is \$6 million, rising to \$19 million by end 1965 when the full impact of our effort will be felt.

(7) Real property management program: Despite increases of 30 percent in real property holdings and over 11 percent in labor and materials costs since 1959, total maintenance and operating costs for Defense real property have remained relatively level. There is clearly a need for further improvement in our real property management, however, if we are to restrain future cost rises in the face of continued growth in real property and family housing inventories, and if we are to reduce the existing backlog of essential maintenance and repair.

To this end, we are improving our real property management by instituting uniform cost accounting systems and undertaking studies with the help of the military departments, and outside experts in design and construction practices. We are undertaking studies of the operation of heating and power plants, the purchase of utilities, and the development of improved maintenance standards. Savings of \$24 million per year are expected by end 1963, rising to \$45 million per year by end fiscal year 1965.

In summary, our cost reduction program is now in full operation and we hope to be reporting the achievement of substantial economies to you in the months ahead.

B. IMPROVING OUR PERSONNEL MANAGEMENT

1. Overall staffing levels

For some months, now, we have been conducting two related studies designed to reduce staffing at all organizational levels and to expedite the decision-making process. These studies are designed to identify excessive layers of administrative review and reporting, overlapping functions, and unnecessary or low-priority activities. Surplus positions are being identified and eliminated or transferred to higher priority activities.

The first study, aimed at reducing both military and civilian staffing levels in the headquarters of the military departments, is nearly complete. Progress reports have been very encouraging.

The second study is aimed specifically at a reduction in the number of echelons between the headquarters of the military departments and the operational forces. This study, too, includes an examination of both military and civilian staffing levels. It should be completed early in the spring.

TABLE 1.—Department of Defense procurement and logistics cost reduction program

(In millions)

	Recurring annual savings to be realized from actions in fiscal years 1962 through current year				
	As estimated Jan. 15, 1963			As reported to President	
	1963	1964	1965	Fiscal year 1963	Fiscal year 1967
1. Buying only what we need:					
(a) Refining requirements calculations:					
(1) Major items of equipment.....	(1) \$104	(1) \$157	(1) \$210	0	0
(2) Initial spares provisioning.....	420	502	550	\$150	\$300
(3) Secondary items.....	8	25	30	0	0
(4) Technical manuals.....					
Total from refinement of requirements.....	532	684	790	150	300
(b) Increased use of excess inventory in lieu of new procurement:					
(1) Equipment and supplies.....	189	284	394	225	450
(2) Idle production equipment.....	2	10	21	0	0
(3) Excess contractor inventory.....	20	20	20	0	0
Total from increased use of excess inventory.....	211	314	435	225	450
(c) Eliminating "goldplating".....	64	100	100	64	100
(d) Inventory item reduction.....	1	4	5	0	0
2. Buying at the lowest sound price:					
(a) Shift from noncompetitive to competitive procurement:					
Total percent competitive ²	(37)	(38.4)	(39.9)		
Amount of saving.....	289	391	494	160	480
(b) Shift from cost plus fixed fee to fixed or incentive price:					
Total percent cost plus fixed fee ³	(25.8)	(19.1)	(12.3)		
Amount of saving.....	289	464	639	100	600
3. Reducing operating costs:					
(a) Terminating unnecessary operations.....	292	357	442	257	600
(b) Standardizing and simplifying procedures:					
(1) Consolidation of 16 requisitioning systems into 1 on July 1, 1962.....	10	20	20	20	20
(2) Consolidation of 81 transportation documents into 1.....	0	22	32	30	30
(3) Reduction of contractor reports.....	1	4	25	30	30
(c) Consolidating and increasing efficiency of operations:					
(1) DSA operating expense savings.....	31	33	42	28	50
(2) DCA and communication system savings.....	16	20	25		30
(3) Improving transportation and traffic management.....	17	23	23	40	65
(4) Improving equipment maintenance management.....	108	199	297	48	300
(5) Administrative vehicles.....	3	9	11	0	0
(6) Improving military housing management.....	6	11	19	3	27
(7) Improving real property management.....	24	34	45	0	0
Total program.....	1,894	2,689	3,444	⁴ 1,155	3,082

¹ Savings will be reported as identified. In fiscal year 1962 "requirements" for major items of equipment were reduced by \$24 billion. In fiscal year 1963, the Army reduced 1964 pipeline requirements by \$500 million; and substituted an expanded production base for a mobilization reserve inventory, saving a net of \$36 million, a total saving of \$536 million.

² Fiscal year 1961 was 32.9 percent; total annual conversion from sole source of \$1.9 billion—savings are 25 percent per dollar converted.

³ For the 1st 9 months of fiscal year 1961, CPFF was 38 percent; a reduction of \$6 billion is required to reduce that percentage to 12.3 percent; savings are 10 percent per dollar converted.

⁴ Fiscal year 1963 goal reported in July 5, 1962, memo to President, on a conservative basis, as \$750 million.

INCREASING PRICE COMPETITION IN DEFENSE PROCUREMENT

A primary objective in Defense procurement is to make awards based on obtaining competitive price proposals leading to a fixed-price contract. Our experience shows that, on the average, price reductions of 25 percent are obtained by transferring items to competitive procurement—as well as the benefits of a broader industrial base among suppliers, both large and small.

There are two methods of obtaining price competition, both of which produce lower prices and a broader industrial base: (1) formal advertising and (2) negotiated price competition. The first of these is the preferred method by law and by DOD regulations. However, formal advertising represents only a part of the total price competition which can be and should be achieved and has ranged between 12 and 16 percent of total contract awards during the past 10 years.

Prior to 1961, statistics were not kept to indicate the amount of additional price competition obtained under each of the 17 negotiation exceptions permitted by the Armed Services Procurement Act of 1947. Studies were made early in calendar year 1961 to determine exactly how much total price competition was being achieved, and goals for progressively raising this level were established for fiscal years 1962-65 as follows:

Fiscal year:	<i>Total per- cent price competition</i>
1961	32.9
1962	35.6
1963 (6 months)	36.9
1963 (goal)	37.0
1964 (goal)	38.4
1965 (goal)	39.9

The significance of these goals is that for each 1 percentage point of increased price competition, \$290 million of purchases are bought by price competition at a savings of about \$70 million. Our goal through 1965 is to increase the amount of price competitive procurement by 7 percentage points over 1961, and thus to achieve annual price savings of about \$490 million. Substantial progress toward goal was made in fiscal year 1962 and in the first 6 months of fiscal year 1963.

The natural questions which arise are: (1) Why cannot all price competition conform to the rules of formal advertising? and (2) How are we obtaining greater price competition in categories which were formerly restricted to noncompetitive procurement?

A. WHY CANNOT ALL PRICE COMPETITION CONFORM TO THE RULES OF FORMAL ADVERTISING?

There are six very precise rules of formal advertising, and any deviation requires that the award be classified as negotiated, regardless of the amount of competition obtained. These rules are as follows:

- (1) A foolproof specification that will be sufficiently precise to permit all competitors to bid on a common basis, but will also be legally adequate to permit rejection of any of the fairly common attempts to cut corners on requisite quality;
- (2) A prior public announcement so that any interested firm, regardless of prior experience or competence, may submit a bid;
- (3) Award on the basis of price alone with no ability to give consideration to differences in competence, experience, or business reputation;
- (4) Automatic rejection of any bid which differs in any significant detail from the invitation;
- (5) Public opening and reading of bids and rejection of any late bids; and
- (6) Award on a firm fixed price or fixed price with escalation basis.

In fiscal year 1962, 35.6 percent of all awards were on the basis of price competition. Of this figure, 12.6 percent was by formal advertising, and the remaining 23 percentage points were competitions conducted under one of the 17 negotiation exceptions. The following analysis shows for each of these 17 exceptions why the price competition actually achieved cannot be called formal advertised, even though there were 2 or more qualified bidders and the award was placed with the lowest responsive and responsible bidder on a fixed-price basis.

Percent of negotiated contracts by negotiation authority

Reason for negotiated procurement permitted by law	Percent of total awards, fiscal year 1962		
	Resulting from price competition	Resulting from sole source or design competition	Why cannot be classified as formally advertised
Set-asides for small business, labor surplus, and disaster areas (excludes 1 and 17).	4.9	0.3	These awards are generally made under the rules of formal advertising except that eligible bidders are restricted. GAO has ruled that we cannot report such awards as formally advertised.
Public exigency (emergency) (excludes 2). ¹	.5	1.0	Number of bidders restricted due to emergency nature of the requirement (such as fire or flood).
Purchases not more than \$2,500 (excludes 3).	3.8	-----	Most of these are made locally by installations. The law allows small purchases to be conducted by informal requests for quotations to avoid the time and expense of public advertising and public bidding.
Personal or professional services (excludes 4).	(?)	.4	Services of individuals and professional firms paid for on a time basis. Public advertising and public bidding not suitable.
Services of educational institutions (excludes 5).	(?)	1.1	Covers research and training arrangements where competition is obtained only from qualified institutions.
Purchases outside of the United States (excludes 6).	2.2	2.1	Purchases restricted to sources outside of the United States where it is impractical to obtain competition from U.S. sources. Formal advertising is usually not the custom of foreign sources.
Medicines and medical supplies (excludes 7). ¹	.2	(?)	Specialized medical supplies and equipment available only from limited sources.
Supplies purchased only for authorized resale (excludes 8). ¹	.1	.2	Restricted to brand-name items sold through retail activities (commissaries and post exchanges).
Perishable and nonperishable subsistence (excludes 9).	1.7	-----	Open market purchase procedures most competitive in nature. Suppliers compete on a daily basis for requirements.
Impractical to secure competition by formal advertising (excludes 10). ¹	3.5	10.1	Impossible to draft definitive specifications. Proprietary items available from a single source.
Experimental, developmental, test, or research (excludes 11). ¹	.7	19.8	Cannot use fixed-price contract. Impossible to draft definitive design specifications. Can't guarantee result of R. & D.
Classified purchases (excludes 12) ¹ .	1.2	1.5	Security prevents public advertising or disclosure of a contract classified as "confidential" or higher.
Technical equipment requiring standardization and interchangeability of parts (excludes 13). ¹	.1	.1	Standardization restricts competitive sources. This exception is restricted to tactical items used in theaters of operations.
Technical supplies requiring substantial initial investment or extended period of preparation (excludes 14). ¹	2.2	27.3	Limited number of sources having facilities or know-how to compete. Follow-on production of aircraft, missiles, etc.
Negotiation after advertising (excludes 15). ¹	(?)	(?)	Collusive bids are found, or price is unreasonable.
Purchases to keep facilities available in interest of national defense or mobilization (excludes 16). ¹	1.9	.5	Competition restricted to plants whose capacity must be sustained for mobilization reasons.
Total.....	23.0	64.4	

¹ Each case requires a written determination and finding which is furnished to GAO.² 0.05 percent or less.

Negotiated price competitive procurements are awarded to the lowest responsible and responsive bidders and are in the best interest of the Government just as fully as formally advertised procurements. Hence, the real opportunity for improved procurement lies in the following:

B. HOW ARE WE OBTAINING GREATER PRICE COMPETITION?

These opportunities for additional price competition lie almost entirely in categories of military hardware, components, and parts since commercial, off-the-shelf items are now bought to the maximum possible extent under price competition. Non-price-competitive procurements were 64.4 percent of total awards in fiscal year 1962 for the following reasons:

	<i>Percent</i>
Design competitions (such as TFX).....	3.9
Follow-on with same source after a design competition.....	34.6
Follow-on with same source after a price competition.....	2.6
Only one source solocited.....	23.3
	64.4

All except the first type of non-price-competitive procurement can be reduced, in some degree, by greater attention to procurement planning. However, such planning requires substantial technical effort and must be started months, or even years, in advance of the procurement.

1. Reducing follow-on awards to same source after a design competition

The objective here is to obtain drawings and specifications as early as possible in the design-production cycle, in order to have the basis for conducting a price competition when the investment in facilities and know-how of the developer can be duplicated by a new production source with economy to the Government.

Such competitions have seldom been made by formal advertising in the past due to the complexity of the systems and the impracticability of using firm fixed price contracts on the first production buy. We have had successful experience recently, however, in using a "two-step formal advertising" procedure whereunder (1) all bidders first qualify their designs and (2) then submit sealed bids, followed by public awards to the bidder. We expect to use this practice more extensively in the future.

2. Reducing follow-on awards to same source after price competition

This is the problem of substantial initial investment in start-up costs. While it is uneconomic to change sources in many of these cases, the GAO has recently agreed that the initial competitive contract can cover quantities for 2 or more years, even though annual funds are involved. A ceiling termination cost would be provided in the contract, and funds reserved for this purpose. This will be especially beneficial on Army procurements.

3. Reducing awards resulting from soliciting only one source

This is the most fruitful area for continuing conversion to price competition. Here we are concerned with "breaking-out" tens of thousands of components and parts for competitive procurement.

Frequently we lack a definitive design specification and are unable to formally advertise on the first competitive buy. We are attempting to obtain and use the technical data required for formal advertising where we are legally entitled to do so, but often the time required to develop a definitive specification cannot be justified due to the infrequency or limited size of our reprourement needs—or to the fact that we would limit competition. Before deciding to buy competitively, we must also evaluate the penalties which may result from lack of standardization, increased varieties of parts in the supply system; and any adverse effect on maintenance costs, reliability, and safety.

APPENDIX 3

U. S. GENERAL ACCOUNTING OFFICE REPORTS ON DEFENSEACTIVITIES ISSUED TO THE CONGRESS DURING THEPERIOD NOVEMBER 1, 1959, THROUGH FEBRUARY 28, 1963

<u>Index Number</u>	<u>Report File Number</u>	<u>Date</u>	<u>Title of Report</u>	<u>Department</u>
1.	B-133249	Nov. 19, 1959	Report on Review of Selected Activities of the Naval Supply Depot, Mechanicsburg, Pa.	Navy
2.	B-133201	Nov. 24, 1959	Review of Management of Leased Private Lines Telephone Facilities in the Department of Defense and Selected Civil Agencies	Defense
3.	B-133133	Nov. 25, 1959	Examination of the Pricing of Department of the Air Force Contracts AF 30(635)-3494 and AF 30(635)-3666 With Northern Radio Company, Incorporated New York, N. Y.	Air Force
4.	B-118663	Nov. 30, 1959	Examination of the Pricing of Fixed-Price Subcontracts Issued to General Electric Company by American Bosch Arma Corporation for B-52 Bomber Fire Control Radar Under Department of the Air Force Contracts	Air Force
5.	B-133244	Dec. 15, 1959	Review of Vehicle Maintenance and Replacement Costs, Department of the Air Force	Air Force
6.	B-133128	Dec. 18, 1959	Examination of the Military Assistance Program Administered by the Department of the Navy	Navy
7.	B-118762	Dec. 31, 1959	Examination of Department of the Army Contracts and Subcontracts With Birdsboro Armormat, Inc., Birdsboro, Pa.	Defense
8.	B-132913	Dec. 31, 1959	Review of Supply Activities for the Military Assistance Program, United States Army Logistical Depot, Japan	Army

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<u>Index Number</u>	<u>Report File Number</u>	<u>Date</u>	<u>Title of Report</u>	<u>Department</u>
9.	B-133251	Dec. 31, 1959	Examination of Department of the Air Force Contracts With General Electric Company, Heavy Military Electronic Equipment Department, Syracuse, New York	Air Force
10.	B-125090	Jan. 12, 1960	Review of the Military Assistance Program for Pakistan (Classified)	Defense
11.	B-133259	Jan. 13, 1960	Review of Family Housing Construction at Granite City Engineer Depot, Granite City, Illinois, Department of the Army	Army
12.	B-125085	Jan. 29, 1960	Review of the Military Assistance Program for Turkey (Classified)	Defense
13.	B-132910	Jan. 29, 1960	Examination of Purchase Orders Issued by Douglas Aircraft Company, Inc., Santa Monica, California, Under Department of the Army Subcontracts	Army
14.	B-132915	Jan. 29, 1960	Examination of the Pricing of J-69 Turbo-Jet Engines Under Department of the Air Force Contracts With Continental Aviation and Engineering Corporation, Toledo, Ohio	Air Force
15.	B-133263	Jan. 29, 1960	Review of the Use of Contractor-Furnished Drawings for Procurement Purposes, Department of the Navy	Navy
16.	B-133245	Jan. 29, 1960	Examination of Selected Supply Management Activities of the United States Army, Ryukyu Islands, and Related Activities of the Marine Corps in the Ryukyu Islands	Army
17.	B-133255	Jan. 29, 1960	Review of Procurement of Airframe Spare Parts and Ammunition at Ogden Air Materiel Area, Department of the Air Force	Air Force

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18.	B-133267	Jan. 29, 1960	Review of Administration of Tax Exemption Privileges Under the Offshore Procurement Program in Europe	Defense
19.	B-118720	Jan. 31, 1960	Examination of the Negotiation of Additional Fees for Contractor Financing Expenses Under Department of the Air Force Contracts AF 33(600)-32944, -34952, and -33168 With Northrop Corporation, Hawthorne, California	Air Force
20.	B-133164	Feb. 15, 1960	Review of Treatment of Suppliers' Price Reductions Applicable to Negotiated Department of the Air Force Contracts by Fairchild Engine and Airplane Corporation, Fairchild Aircraft Division, Hagerstown, Maryland	Air Force
21.	B-132913	Feb. 25, 1960	Review of the Military Assistance Program for Japan (Classified)	Defense
22.	B-125099	Feb. 26, 1960	Review of the Military Assistance Program for Korea (Classified)	Defense
23.	B-133247	Feb. 26, 1960	Examination of the Price Negotiated for Department of the Army Contract DA-23-204-TC-230 With Northwestern Aeronautical Company, St. Paul, Minnesota	Army
24.	B-125091	Feb. 29, 1960	Review of the Military Assistance Program for Italy (Classified)	Defense
25.	B-125084	Feb. 29, 1960	Review of Administrative Costs of the United States Military Assistance Program Chargeable to the Federal Republic of Germany	Defense

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26.	B-133280	Feb. 29, 1960	Review of the Pricing of Materiel Delivered to the Military Assistance Program by the Military Departments	Defense
27.	B-133274	Feb. 29, 1960	Review of Management of Aeronautical Spare Parts by Middletown Air Materiel Area, Department of the Air Force	Air Force
28.	B-133250	Feb. 29, 1960	Review of Aircraft Procurement Programs in the Department of the Navy Part 1	Navy
29.	B-125061	Mar. 21, 1960	Examination of the Military Assistance Program Administered by the Department of the Air Force	Air Force
30.	B-118755	Mar. 31, 1960	Examination of Subcontracts Awarded by Western Electric Company, Incorporated Winston-Salem, North Carolina, to Telecomputing Corporation, Whittaker Gyro Division, Van Nuys, California, Under Department of the Army Contracts	Army
31.	B-133296	Apr. 19, 1960	Examination of Allowances for Federal Excise Taxes Included in Spare Parts Prices Under Department of the Army Contract DA-36-039-SC-36529 With Collins Radio Company, Cedar Rapids, Iowa	Army
32.	B-133298	Apr. 25, 1960	Review of Selected Commercial Air Shipments of Household Goods of Military Personnel	Defense
33.	B-118695	Apr. 27, 1960	Examination of Procurement of Mobile Air-Conditioning Carts for Ground Support of B-58 Airplanes Under Department of the Air Force Prime Contracts With Convair, a Division of General Dynamics Corporation Fort Worth, Texas	Air Force

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34.	B-133019	Apr. 29, 1960	Review of Selected Supply Activities at San Bernardino Air Materiel Area, Department of the Air Force	Air Force
35.	B-118720	Apr. 29, 1960	Examination of Additional Fees Paid by the Government for Contractor Financing Expenses Under Department of Defense Contracts	Defense
36.	B-118755	Apr. 29, 1960	Examination of Selected Activities Under Department of the Army Contracts With Western Electric Company, Incorporated, New York, N. Y., for Nike Guided Missile Weapon Systems	Army
37.	B-133226	May 6, 1960	Review of the Government's Rights and Practices Concerning Recovery of the Cost of Hospital and Medical Services in Negligent Third-Party Cases	Defense
38.	B-133307	May 10, 1960	Examination of the Pricing of Fuel Booster Pump Repair Kits Under Department of the Air Force Negotiated Contract AF 01(601)-20268 With Thompson Ramo Wooldridge, Inc., Cleveland, Ohio	Air Force
39.	B-133256	May 19, 1960	Review of Development and Procurement of New Combat and Tactical Vehicles by the Department of the Army (Classified)	Army
40.	B-133042	May 19, 1960	Initial Report on Review of Administrative Management of the Ballistic Missile Program of the Department of the Air Force	Air Force
41.	B-133260	May 31, 1960	Review of the Utilization of Separate Army and Navy Ocean Terminal Facilities in the San Francisco Bay Area, Department of Defense	Defense

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42.	B-133313	May 31, 1960	Review of Supply Management of Electronic Supplies and Equipment Within the Department of Defense	Defense
43.	B-133300	June 10, 1960	Examination of the Pricing of Purchase Orders for Aircraft Fuel Controls Issued to Holly Carburetor Company, Warren, Michigan, by Pratt & Whitney Aircraft Division of United Aircraft Corporation East Hartford, Connecticut, Under Department of the Navy Contracts	Navy
44.	B-133303	June 10, 1960	Examination of the Pricing of Master Indicators of the N-1 Compass Under Department of the Air Force Contract AF 33(600)-28999 With Kearfott Company, Inc., Little Falls, New Jersey	Air Force
45.	B-133321	June 24, 1960	Examination of the Pricing of P-2 Aircraft Cameras Under Department of the Air Force Subcontracts Negotiated by North American Aviation, Inc., Los Angeles, California, With J. A. Maurer, Inc., Long Island City, New York	Air Force
46.	B-125086	June 30, 1960	Review of Programming and Delivery Under the Military Assistance Program of Equipment for Vehicles Already Equipped (Classified)	Defense
47.	B-133102	July 29, 1960	Review of Capehart Housing Program of the Department of Defense	Defense
48.	B-133307	July 29, 1960	Examination of the Prices Paid for Spare Parts Under Department of the Air Force Contracts AF 01(601)-20268 and AF 34(601)-4833 With Thompson Ramo Wooldridge, Inc. Cleveland, Ohio	Air Force

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49.	B-133324	Aug. 11, 1960	Review of Supply Management Activities, United States Marine Corps, Department of the Navy	Navy
50.	B-125073	Aug. 31, 1960	Review of Air Item Supply Operations at the Transportation Materiel Command Department of the Army, St. Louis, Missouri	Army
51.	B-125073	Sept. 7, 1960	Review of Automatic Data Processing System at the Transportation Materiel Command, Department of the Army, St. Louis, Missouri	Army
52.	B-133329	Sept. 29, 1960	Examination of Rental Payments Negotiated for the Commercial Use of Government-Owned Facilities Furnished Under Department of the Air Force Contract AF 33(038)-25718 With Avco Corporation, Lycoming Division, Stratford, Connecticut	Air Force
53.	B-133042	Oct. 6, 1960	Examination of the Pricing of Subcontracts Issued to Reaction Motors Division, Thiokol Chemical Corporation, Denville, New Jersey, by Convair, a Division of General Dynamics Corporation, San Diego, California, Under Department of the Air Force Prime Contract AF 04(645)-4	Air Force
54.	B-132995	Oct. 10, 1960	Examination of the Target Price Negotiated for Sidewinder Missile Guidance and Control Units Under Department of the Navy Fixed-Price Incentive Contract NOrd-16483 With Philco Corporation, Philadelphia, Pennsylvania	Navy

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55.	B-133336	Nov. 18, 1960	Review of the Need for Procurement of Electric and Telephone Line Construction Trucks by the Department of the Air Force	Air Force
56.	B-133245	Nov. 30, 1960	Review of Certain Activities of the United States Civil Administration of the Ryukyu Islands	Army
57.	B-132936	Nov. 30, 1960	Examination of the Pricing of F-101 Airplane Wings Purchased from the Martin Company, Baltimore, Maryland by McDonnell Aircraft Corporation, St. Louis, Missouri, Under Department of the Air Force Negotiated Contract AF 33(600)-29841	Air Force
58.	B-133256	Nov. 30, 1960	Review of Development and Procurement of New Combat and Tactical Vehicles by the Department of the Army	Army
59.	B-133042	Dec. 27, 1960	Findings Resulting from Initial Review of the Ballistic Missile Programs of the Department of the Air Force (Classified)	Air Force
60.	B-118763	Dec. 30, 1960	Examination of Conversion from Cost-Plus-a-Fixed-Fee Basis to Fixed-Price Basis of Certain Portions of Department of the Navy Contract N0y-83333 With Brown-Raymond-Walsh (a Joint Venture) for the Spanish Base Construction Program	Navy
61.	B-133341	Jan. 5, 1961	Examination of the Prices Negotiated for J-71-A-11 Aircraft Engines Under Department of the Air Force Contract AF 33(600)-23143 With Allison Division, General Motors Corporation, Indianapolis, Indiana	Air Force

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62.	B-133346	Jan. 10, 1961	Examination of Procurement of 5,000-Gallon Capacity Semitrailers by Department of the Army from Fruehauf Trailer Company, Detroit, Michigan	Army
63.	B-132905	Jan. 24, 1961	Examination of the Prices Paid for Certain Jet Engine Components Purchased from Bendix Aviation Corporation, South Bend, Indiana, by General Electric Company, Aircraft Gas Turbine Division, Cincinnati, Ohio, Under Department of the Air Force Contracts	Air Force
64.	B-133316	Jan. 24, 1961	Review of Programing and Financing of Selected Facilities Constructed at Army, Navy, and Air Force Installations, Department of Defense	Defense
65.	B-133279	Jan. 26, 1961	Review of the Cost of Excess Proficiency Flying in the United States Air Force	Air Force
66.	B-133158	Jan. 27, 1961	Examination of Prices Negotiated for Coordinate Data Transmitting Sets Under Department of the Air Force Contracts AF 30(635)-9324 and AF 30(635)-11490 With Burroughs Corporation, Detroit, Michigan	Air Force
67.	B-133347	Jan. 27, 1961	Review of the Appropriation Accounts of the Department of the Navy	Navy
68.	B-133313	Jan. 31, 1961	Review of Supply Management of Selected Electronic Equipment Programs, Department of the Navy	Navy
69.	B-125099	Jan. 31, 1961	Review of Military Assistance Program Requirements for the Army and Air Force of Korea (Classified)	Defense

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70.	B-133349	Feb. 9, 1961	Review of Supply Activities of United States Army Japan Depot-Complex	Army
71.	B-132915	Feb. 13, 1961	Examination of the Pricing of Spare Parts for J-69 Turbojet Engines Under Department of the Air Force Negotiated Contracts With Continental Aviation & Engineering Corporation, Toledo, Ohio	Air Force
72.	B-125030	Feb. 14, 1961	Follow-Up Review of Department of the Air Force Practices With Regard to Fuel Used by General Electric Company, Aircraft Gas Turbine Division, Evandale, Ohio	Air Force
73.	B-133352	Feb. 15, 1961	Examination of the Target Price of Department of the Air Force Contract AF O4(647)-287 With North American Aviation, Inc., Rocketdyne Division, Canoga Park, California	Air Force
74.	B-133353	Feb. 28, 1961	Review of Delivery and Utilization of Tactical Air Navigation Equipment Under the Military Assistance Program (Classified)	Air Force
75.	B-133324	Mar. 17, 1961	Review of Supply Management Activities of the Marine Corps Air Facility, Iwakuni, Japan, Department of the Navy	Navy
76.	B-133358	Mar. 17, 1961	Review of Expenditures for Selected Maintenance and Construction Projects at Army Chemical Center, Edgewood, Maryland	Army
77.	B-133032	Apr. 12, 1961	Examination of Fraudulent Transactions Relating to the Accounts of Military Disbursing Officers	Defense
78.	B-133359	Apr. 12, 1961	Review of the Military Assistance Program for the Philippines (Classified)	Defense

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79.	B-125071	Apr. 14, 1961	Examination of the Pricing of Falcon Missiles Under Department of the Air Force Contracts With Hughes Aircraft Company, Culver City, California	Air Force
80.	B-133370	Apr. 28, 1961	Review of Manpower Utilization in Selected Areas of the Public Works Department, Fleet Activities, Yokosuka, Japan, Department of the Navy	Navy
81.	B-133019	May 10, 1961	Review of Reciprocating Engine Spare Parts Procurement and Repair Requirements, San Antonio Air Materiel Area, Department of the Air Force	Air Force
82.	B-125087	May 22, 1961	Review of the Military Assistance Program for Taiwan (Classified)	Defense
83.	B-133369	May 29, 1961	Review of Department of the Air Force Negotiated Contract AF 33(600)-31283 to the Magnavox Company, Fort Wayne, Indiana, for ARC-34 Communication Equipment	Air Force
84.	B-132990	May 31, 1961	Review of Supply Activities of the United States Army Signal Depot, Ascom City, Korea	Army
85.	B-133142	May 31, 1961	Review of Administration of the Dependents' Medical Care Program by the Department of the Army	Army
86.	B-133328	June 5, 1961	Examination of the Leasing of Government-Owned Aircraft Test Engines by the Department of the Air Force to General Electric Company, Cincinnati, Ohio	Air Force

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87.	B-133371	June 7, 1961	Examination of the Air-Travel Policies of Selected Defense Contractors With Respect to Savings Available to the Government through Increased Use of Less Costly than First-Class Accommodations	Defense
88.	B-125027	June 20, 1961	Examination of the Pricing of Certain Components of Corporal Missiles Under Department of the Army Negotiated Fixed-Price Subcontracts Awarded by Gilfillan Bros., Inc., Los Angeles, California, to Motorola, Inc., Western Military Electronics Center, Phoenix, Arizona	Army
89.	B-125086	June 27, 1961	Review of the Military Assistance Program for Spain (Classified)	Defense
90.	B-133342	June 29, 1961	Review of Progress Payments Made on Selected Ship Construction Contracts Awarded and Administered by the Department of the Navy	Navy
91.	B-133372	June 30, 1961	Review of Management of Idle Production Equipment Within the Department of Defense	Defense
92.	B-133374	June 30, 1961	Examination of the Pricing of AN/ARC-21 Receiver-Transmitters Under Department of the Air Force Negotiated Fixed-Price Contract AF 33(600)-35867 With Radio Corporation of America, Defense Electronic Products, Camden, New Jersey	Air Force
93.	B-133376	June 30, 1961	Review of Planned Procurement and Concurrent Disposal of Compressed Gas Cylinders, Corps of Engineers, Department of the Army	Army

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94.	B-133361	June 30, 1961	Review of Management Within the Department of the Air Force of Replacement Equipment	Air Force
95.	B-133342	Jul. 31, 1961	Review of Private Shipbuilders' Rent-Free Use of Department of the Navy Facilities in the Construction of Commercial Ships	Navy
96.	B-133363	Jul. 31, 1961	Review of the Reservation of Army Excess Material for the Military Assistance Program	Army
97.	B-133384	Aug. 22, 1961	Review of the Utilization of Engines on Stored Aircraft in the Department of the Navy	Navy
98.	B-133313	Sept. 15, 1961	Review of Interservice Utilization of Aeronautical Equipment and Supplies Within the Department of Defense	Defense
99.	B-133396	Sept. 18, 1961	Review of Noncompetitive Procurement of Aeronautical Replacement Spare Parts Within the Department of Defense	Defense
100.	B-124520	Sept. 29, 1961	Review of the Use of Local Currencies in Spain for Contracting and Administrative Purposes by the United States Government	Defense
101.	B-133399	Sept. 29, 1961	Inclusion of Excessive Premium Pay Costs and Computational Errors in the Price Negotiated by the Department of the Navy for Fixed-Price Contract NObs 3647 Awarded to New York Shipbuilding Corporation, Camden, New Jersey	Navy

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102.	B-133395	Oct. 6, 1961	Review of Overseas Commercial Air Shipments of Military Cargo for the Military Assistance Program and Air Force Units by the Department of the Air Force	Air Force
103.	B-133177	Oct. 12, 1961	Review of Materiel Standardization Activities of the Military Clothing and Textile Supply Agency, Department of Defense, Philadelphia, Pennsylvania	Defense
104.	B-132913	Oct. 13, 1961	Review of the Management of Spare Parts for Army Equipment Provided to Far East Countries Under the Military Assistance Program	Army
105.	B-133397	Oct. 16, 1961	Review of Requisitioning Actions by the Ordnance Supply Management Agency of the United States Army, Europe (Rear) Communications Zone, Orleans, France	Army
106.	B-132936	Oct. 23, 1961	Examination of the Pricing of F-101 Airplane Wings Under a Fixed-Price Incentive Subcontract Negotiated by McDonnell Aircraft Corporation, St. Louis, Missouri, With the Martin Company, Baltimore, Maryland, Under Department of the Air Force Prime Contract AF 33(600)-23393	Air Force
107.	B-133125	Oct. 31, 1961	Review of Army Signal Supply Operations, United States Army, Europe (Rear) Communications Zone, Orleans, France	Army
108.	B-146700	Nov. 16, 1961	Review of Selected Activities in the Management of Food Supply by the Military Subsistence Supply Agency, Department of Defense	Defense

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109.	B-133014	Nov. 30, 1961	Review of Practices Followed in the Storage and Warehousing of Aircraft Parts and Equipment, Naval Air Station Pensacola, Florida	Navy
110.	B-133232	Dec. 29, 1961	Review of Housing Allowances Paid to United States Military Personnel Occupying Rental Guarantee Housing Projects in France	Defense
111.	B-146705	Dec. 29, 1961	Examination of the Estimated Costs for Subcontracted Assemblies Included in the Incentive Target Price Negotiated for B-52G Airplanes Under Department of the Air Force Contract AF 33(600)-34670 With the Boeing Company, Wichita Division, Wichita, Kansas	Air Force
112.	B-146706	Dec. 29, 1961	Examination of the Prices Negotiated for Certain Electron Tubes Under Department of the Navy Contracts With Raytheon Company, Waltham, Massachusetts	Navy
113.	B-146712	Dec. 29, 1961	Review of Supply Management of Ordnance Equipment and Spare Parts in the Department of the Navy	Navy
114.	B-133025	Jan. 9, 1962	Review of the Use of Commercial Air Carriers for Overseas Travel and Shipment of Unaccompanied Baggage of Department of Defense Personnel	Defense
115.	B-133384	Jan. 25, 1962	Review of the Utilization of Excess R3350-26/A Aircraft Engines as a Source for Spare Parts by the Department of the Navy	Navy

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116.	B-118695	Jan. 29, 1962	Examination of Procurement of Special Tooling for the B-58 Airplane Program Under Department of the Air Force Negotiated Cost-Plus-Incentive-Fee Contracts With Convair, a Division of General Dynamics Corporation, Fort Worth, Texas	Air Force
117.	B-133369	Jan. 31, 1962	Examination of the Pricing of Selected Spare Parts for ARC-34 Communication Equipment Under Department of the Air Force Fixed-Price Contracts Negotiated With the Magnavox Company, Fort Wayne, Indiana	Air Force
118.	B-146711	Jan. 31, 1962	Review of Supply Management of Photographic Supplies and Equipment Within the Department of Defense	Defense
119.	B-146717	Jan. 31, 1962	Examination of the Pricing of Certain Missile Tooling Under Department of the Air Force Negotiated Contract AF 33(600)-36319 With the Boeing Company, Seattle, Washington	Air Force
120.	B-133058	Feb. 8, 1962	Review of the Supply Management of Ship Repair Parts by the Ships Parts Control Center, Mechanicsburg, Pennsylvania, Department of the Navy	Navy
121.	B-133393	Feb. 14, 1962	Selective Examination of Payments Made for Construction of Facilities and Installation of Equipment Under Department of the Air Force Contracts Negotiated With Air Products, Incorporated, Allentown, Pennsylvania	Air Force

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122.	B-146716	Feb. 16, 1962	Review of Maintenance of M48 and M48A1 Medium Tanks Assigned to and Reserved for the Medium Tank Battalion, 68th Armor, Fort Bragg, North Carolina (Classified)	Army
123.	B-146720	Feb. 28, 1962	Examination of Aircraft Maintenance Practices for Transport Aircraft in the Military Air Transport Service, Department of the Air Force	Air Force
124.	B-146718	Feb. 20, 1962	Report on Overcharges by the Shipbuilding Division of Bethlehem Steel Company, Quincy, Massachusetts, for Materials and Supplies Acquired for Use Under Government Cost-Type Contracts	Navy
125.	B-133055	Feb. 21, 1962	Review of the Military Assistance Program for Greece (Classified)	Defense
126.	B-146709	Feb. 28, 1962	Review of Programing and Procurement of Selected Operational Equipment and Communication Services and the Utilization of Certain Technical Personnel by the Department of the Air Force in the Semi-Automatic Ground Environment System (SAGE)	Air Force
127.	B-146709	Mar. 23, 1962	Review of Contracting by the Ordnance Corps, Department of the Army, for Rebuild of Track Shoe Assemblies for Combat Vehicles	Army
128.	B-133371	Mar. 30, 1962	Review of Domestic Air Travel by Military and Civilian Personnel of the Department of Defense in First-Class Accommodations	Defense

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129.	B-146716	Mar. 30, 1962	Review of Maintenance of Tracked Combat Vehicles at Fort Bragg, North Carolina, Department of the Army (Classified)	Army
130.	B-146723	Mar. 30, 1962	Examination of Income Received by Grumman Aircraft Engineering Corporation, Bethpage, New York, from Commercial Airlines for Use of Government-Owned Facilities Furnished Under Department of the Navy Facilities Contract NOa-5682	Navy
131.	B-148167	Apr. 9, 1962	Misassignment and Ineffective Utilization of Ready Reserve Personnel in the XV Corps, Sixth United States Army	Army
132.	B-133042	Apr. 11, 1962	Review of the Administration of Construction of Certain Launch Facilities for the Atlas and Titan Intercontinental Ballistic Missiles at Selected Air Force Bases	Air Force
133.	B-133177	Apr. 17, 1962	Review of Selected Supply Management Functions and Responsibilities of the Military Clothing and Textile Supply Agency, Department of Defense, Philadelphia, Pennsylvania	Defense
134.	B-146721	Apr. 17, 1962	Examination of Procurement of 1,700-Gallon Unassembled Jettisonable Fuel Tanks by the Department of the Air Force Under Negotiated Fixed-Price Contracts With Beech Aircraft Corporation, Wichita, Kansas, and Fletcher Aviation Corporation, Rosemead, California	Air Force
135.	B-133058	Apr. 23, 1962	Review of the Procurement of Certain Major Shipboard Equipment by the Bureau of Ships, Department of the Navy	Navy
136.	B-132913	Apr. 27, 1962	Review of Central Rebuild of World War II Vehicles and Assemblies in the Pacific Area Command Under the Military Assistance Program (Classified)	Defense

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137.	B-146727	Apr. 30, 1962	Review of the Procurement of Spare Parts and Assemblies for the Support of Naval Aircraft	Navy
138.	B-146714	May 16, 1962	Review of Development and Management of Selected Aircraft Crash Fire Trucks in the Department of Defense	Defense
139.	B-146725	May 17, 1962	Review of the Procurement of BW-1 Terrier Missiles by the Department of the Navy (Classified)	Navy
140.	B-146730	May 17, 1962	Review of Interservice Supply Management and Utilization of Selected Aircraft Engines Within the Department of Defense	Defense
141.	B-132990	May 18, 1962	Review of Repair Parts Supply for Ordnance Tank-Automotive Vehicles of the Eighth United States Army, Korea, Department of the Army (Classified)	Army
142.	B-146713	May 23, 1962	Review of the Development and Procurement of Similar-Type Helicopters Within the Department of Defense	Defense
143.	B-125087	May 24, 1962	Review of the Maintenance and Supply Support of Army Equipment Furnished Under the Military Assistance Program for Taiwan (Classified)	Army
144.	B-125085	May 31, 1962	Review of the Military Assistance Program for Turkey (Classified)	Defense
145.	B-133118	May 31, 1962	Review of Automatic Data Processing System Used in Supply Management by the Department of the Navy, Aviation Supply Office, Philadelphia, Pennsylvania	Navy

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146.	B-146710	May 31, 1962	Interest Charges Paid for the Construction of a Water Supply Line at Fort Belvoir, Virginia, Department of the Army	Army
147.	B-146712	May 31, 1962	Review of Supply Management of Selected Weapon System Components and Spare Parts in the Department of the Navy (Classified)	Navy
148.	B-146729	May 31, 1962	Fraudulent Claims and Uneconomical Practices in Lodging and Subsistence Allowances Paid to Members of Shore Patrols, Department of the Navy	Navy
149.	B-125099	June 8, 1962	Review of Maintenance and Supply Support of Army Equipment Furnished Under the Military Assistance Program for Korea (Classified)	Defense
150.	B-145331	June 13, 1962	Review of Stock Funds and Related Consumer Funds in the Department of Defense, Part 1	Defense
151.	B-132974	June 29, 1962	Examination of Royalty Charges by Hazeltine Electronics Division, Hazeltine Corporation, Little Neck, New York, Under Department of Defense Contracts	Defense
152.	B-133118	June 29, 1962	Review of the Supply Management of High-Value Repairable Aviation Assemblies and Equipment Within the Department of the Navy	Navy
153.	B-133177	June 29, 1962	Review of Supply Control and Inspection Activities of the Military Clothing and Textile Supply Agency, Department of Defense, Philadelphia, Pennsylvania	Defense

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154.	B-146730	June 29, 1962	Review of Reclamation of Spare Parts from Excess Aircraft Engines in the Departments of the Army, Navy, and Air Force	Defense
155.	B-146732	June 29, 1962	Review of the Administration of Contracts for Rental of Automatic Data Processing Equipment at Selected Military Installations Within the Department of Defense	Defense
156.	B-146735	June 29, 1962	Inadequate Rental Rates Charged for Government Quarters Furnished to Civilian Employees of the Military Departments in Alaska	Defense
157.	B-132998	Jul. 20, 1962	Examination of Selected Aspects of the Pricing and Administration of Certain Department of the Navy Contracts Awarded to Douglas Aircraft Company, Inc., El Segundo, California	Navy
158.	B-146733	Jul. 23, 1962	Examination into the Pricing of a Subcontract for Nuclear Components Awarded by the Plant Apparatus Department of Westinghouse Electric Corporation to Another Department of Westinghouse and Charged to the Navy Under a Cost-Plus-a-Fixed-Fee Contract	Navy
159.	B-146728	Jul. 23, 1962	Review of the Use of Proceeds from Scrap, Salvage, and Surplus Property Sales for Construction Purposes by the Air Force Logistics Command, Department of the Air Force	Air Force
160.	B-146716	Jul. 30, 1962	Review of Maintenance of Tracked Combat Vehicles at Fort Knox, Kentucky, and Fort Hood, Texas, Department of the Army (Classified)	Army

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161.	B-146737	Jul. 31, 1962	Examination of the Pricing of Spare Engines for Fire-Crash Vehicles Under Department of the Air Force Fixed-Price Prime Contracts With Continental Motors Corporation, Muskegon, Michigan	Air Force
162.	B-146738	Aug. 13, 1962	Review of Payments Made by the United States for the Construction of Airfields in France (Classified)	Defense
163.	B-132973	Aug. 20, 1962	Examination of the Pricing of Repair Parts for Mk 118 and Mk 119 Computers Under Department of the Navy Fixed-Price Incentive Contract NOrd-17812 With Ford Instrument Company, Division of Sperry Rand Corporation, Long Island City, New York	Navy
164.	B-146725	Aug. 28, 1962	Review of Determination of Needs for Major Spare Components for Repair of Missiles at Guided Missile Service Units, Department of the Navy (Classified)	Navy
165.	B-132913	Aug. 31, 1962	Review of the Utilization and Maintenance of Army Equipment Furnished Under the Military Assistance Program for Thailand (Classified)	Defense
166.	B-146716	Aug. 31, 1962	Review of Maintenance of Wheeled Tactical Vehicles at Fort Bragg, Fort Knox, and Fort Hood, Department of the Army (Classified)	Army
167.	B-146746	Aug. 31, 1962	Examination of the Procurement of Defective Controllers for Vertical Gyro Indicating Systems from Summers Gyroscope Company (Now Guidance Technology, Inc.), Santa Monica, California	Defense

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168.	B-146748	Aug. 31, 1962	Review of the Utilization of Excess and Surplus Personal Property Within the Department of Defense	Defense
169.	B-132913	Aug. 31, 1962	Summary of Reviews of the Maintenance and Supply Support of Army Equipment Furnished to Far East Countries Under the Military Assistance Program	Defense
170.	B-118695	Sept. 17, 1962	Examination of Pricing of Screwjack Assemblies for F-106 Airplanes Under Department of the Air Force Negotiated Fixed-Price Subcontracts Awarded by Convair, a Division of General Dynamics Corporation, San Diego, California, to Lear, Incorporated, Grand Rapids, Michigan	Air Force
171.	B-146718	Sept. 19, 1962	Overcharges by the Shipbuilding Division of Bethlehem Steel Company, Quincy, Massachusetts, for Overhead Costs Reimbursed by the Government Under Cost-Type Contracts	Navy
172.	B-146717	Sept. 24, 1962	Examination of the Pricing of Guidance Subsystems for the Bomarc Missile Under Department of the Air Force Negotiated Contract AF 33(600)-36319 With the Boeing Company, Seattle, Washington	Air Force
173.	B-146751	Sept. 25, 1962	Inadequate Control Over Certain Ship Construction Material at the Ingalls Shipbuilding Corporation, Pascagoula, Mississippi	Navy

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174.	B-133304	Sept. 26, 1962	Examination of Purchases of Certain Major Components for Redstone and Jupiter Missiles by Chrysler Corporation, Detroit, Michigan	Army
175.	B-125050	Oct. 4, 1962	Review of Extent to Which Military Procurement Agencies and Prime Contractors Have Obtained Certifications as to the Accuracy and Completeness of Cost Data Used in Negotiation of Contract Prices	Defense
176.	B-118755	Oct. 5, 1962	Review of the Management of Selected Spare Parts for the Nike-Hercules Guided Missile Airborne Guidance Set in the Department of the Army	Army
177.	B-146717	Oct. 15, 1962	Review of the Procurement of Mobile Inspection Equipment Vans for the Bomarc Missile Weapon System Under Department of the Air Force Negotiated Contract AF 33(600)-36319 With the Boeing Company, Seattle, Washington	Air Force
178.	B-132936	Oct. 16, 1962	Examination of Pricing of F-101 Airplane Aft Fuselage Assemblies Purchased from Temco Aircraft Corporation, Dallas, Texas, by McDonnell Aircraft Corporation, St. Louis, Missouri, Under Department of the Air Force Contracts	Air Force
179.	B-132983	Oct. 29, 1962	Review of Sales of High-Temperature Alloy Scrap by Department of Defense Installations in the Continental United States	Defense

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180.	B-146756	Nov. 1, 1962	Examination into the Pricing of 14 Subcontracts for Components of Polaris Missiles Awarded to Systron-Donner Corporation Under Navy Cost-Plus-a-Fixed-Fee Contracts With Lockheed Aircraft Corporation	Navy
181.	B-133058	Nov. 7, 1962	Review of Supply Management of Submarine Equipment and Spare Parts in the Department of the Navy	Navy
182.	B-146718	Nov. 29, 1962	Excessive Amounts of Overhead Costs Charged to Government Cost-Type Contracts by the Quincy Yard of the Bethlehem Steel Company, Quincy, Massachusetts	Navy
183.	B-132989	Nov. 30, 1962	Review of Management of Jet Aircraft Engines by the Air Training Command in its Ground Training Programs for the Department of the Air Force	Air Force
184.	B-132974	Nov. 30, 1962	Review of Provisional Payments Made Under Department of the Navy Contract NObser-59595 With Hazeltine Electronics Division, Hazeltine Corporation, Little Neck, New York	Navy
185.	B-133244	Nov. 30, 1962	Examination of Costs and Manpower Involved in Maintenance of Noncombat Vehicles in the Department of Defense	Defense
186.	B-146758	Dec. 4, 1962	Review of the Pricing of Spare Parts Purchased Under Department of the Navy Fixed-Price Contracts Negotiated With Aeroflex Corporation, Aeroflex Laboratories Division, Long Island City, New York	Navy

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187.	B-146760	Dec. 26, 1962	Examination into the Pricing of Subcontracts for Nuclear Submarine Components Awarded by the Plant Apparatus Department of Westinghouse Electric Corporation Pittsburgh, Pennsylvania, to Another Department of Westinghouse and Charged to the Department of the Navy Under Cost-Plus-a-Fixed-Fee Contracts	Navy
188.	B-145331	Dec. 28, 1962	Review of Stock Funds and Related Consumer Funds in the Department of Defense, Part II	Defense
189.	B-125099	Jan. 8, 1963	Review of the Local Currency Military Budget Support Program for Korea	Defense
190.	B-133042	Jan. 8, 1963	Review of the Administration of Construction of Certain Launch Facilities for the Atlas and Titan Intercontinental Ballistic Missiles at Selected Air Force Bases	Air Force
191.	B-146757	Jan. 15, 1963	Examination of the Catalog Prices Charged for Klystron Tubes Under Noncompetitive Procurements Negotiated by the Military Departments and Their Prime Contractors With Varian Associates, Palo Alto, California	Defense
192.	B-146765	Jan. 31, 1963	Review of the Need for the Navy's Mobilization Reserve of Commercial-Type Vehicles	Navy
193.	B-146748	Jan. 31, 1963	Review of Uneconomical Procurement of Certain Aircraft Engine Bearings by the Department of the Navy	Navy

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194.	B-146725	Feb. 8, 1963	Review of Determination of Needs for Major Spare Components Placed at Supply Depots and on Vessels for Short-Range Guided Missiles, Department of the Navy	Navy
195.	B-146777	Feb. 13, 1963	Review of the Reenlistment of Undesirable Military Personnel	Defense
196.	B-146727	Feb. 15, 1963	The Failure of the Department of the Navy to Use its Excess Spare Parts and Assemblies in the Production of Navy Aircraft	Navy
197.	B-133340	Feb. 19, 1963	Review of Relocation Costs Incurred by Contractors With the Department of Defense and the National Aeronautics and Space Administration for the Recruiting of Salaried Personnel Who Terminated Employment Shortly after They Were Hired	Defense
198.	B-146753	Feb. 20, 1963	Review of Uneconomical Procurement of Aircraft Tires by the Military Services Under Federal Supply Schedules Issued by the General Services Administration	Defense
199.	B-146773	Feb. 26, 1963	Review of Unnecessary Deterioration of Unused Rubber Tracks for Army Combat Vehicles	Army
200.	B-146766	Feb. 15, 1963	Review of License Fees Being Charged the United States Government for the Right to Produce the SS-11 Antitank Guided Missile, Mutually Developed by France and the United States (Classified)	Defense

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201.	B-146762	Feb. 27, 1963	Review of the Programing, Delivery, and Utilization of Selected Missile System Equipment Delivered to European Countries Under the Military Assistance Program (Classified)	Defense
202.	B-133370	Feb. 27, 1963	Review of Manpower Utilization in the Maintenance of Facilities and Operation of Utilities at Selected Military Installations in Japan, Department of Defense	Defense
203.	B-146769	Feb. 27, 1963	Review of Unnecessary Planned Procurement of Generators by the Department of the Army	Army
204.	B-146768	Feb. 28, 1963	Review of the Rejection of Low Bid on Procurement of AN/GRC-19 Radio Sets by the United States Army Electronics Materiel Agency	Army
205.	B-146769	Feb. 28, 1963	Improvident Disposals of Crane Shovels and Unnecessary Procurement of Outboard Motors Under a Modernization Program of the Department of the Army	Army
206.	B-133149	Feb. 28, 1963	Examination of the Costs to the Government for Storage of Petroleum in New Commercial Facilities Under Department of Defense Negotiated Contracts	Defense

U. S. GENERAL ACCOUNTING OFFICE REPORT
ON GOVERNMENT-WIDE ACTIVITIES ISSUED
TO THE CONGRESS MARCH 6, 1963

<u>Index</u> <u>Number</u>	<u>Report</u> <u>File</u> <u>Number</u>	<u>Date</u>	<u>Title of Report</u>	<u>Department</u>
207.	B-115369	Mar. 6, 1963	Study of Financial Advantages of Purchasing over Leasing of Electronic Data Processing Equipment in the Federal Government	Government-wide

DIGESTS OF U.S. GENERAL ACCOUNTING OFFICE REPORTS ON DEFENSE ACTIVITIES ISSUED TO THE CONGRESS DURING THE PERIOD NOVEMBER 1, 1959, THROUGH FEBRUARY 28, 1963

(Filed by subject matter)

SUPPLY MANAGEMENT

Index No. 1

B-133249, November 19, 1959

Report on Review of Selected Activities of the Naval Supply Depot, Mechanicsburg, Pa.

Our review disclosed several matters of an administrative nature which were brought to the attention of responsible Navy officials, and appropriate corrective action was taken or promised. A summary of one of these matters, relating to the erroneous scrapping of usable bearings, follows.

Usable bearings were erroneously scrapped because of a misinterpretation of instructions. We noted that bearings, which appeared to be adequately preserved and usable, were in the process of being scrapped. We found that bearings which cost (1) \$6,288 had already been scrapped and disposed of, (2) \$87,292 had been surveyed and were ready for scrapping, and (3) \$691,765 were in the inventory and presumably would have been scrapped if the same survey criteria were followed. These bearings had previously been inspected and preserved by commercial contractors and the depot at a cost of \$187,835.

We inquired as to the basis for the action and found that disposal action was based on an instruction which depot personnel had interpreted as directing the disposal of material which was not in manufacturers' original packaging or where the seals on the original packaging had been broken. The bearings being scrapped were in these two categories. The intent of the instruction was to use packaging as a criterion of need to determine the condition of material. Consequently, the usable bearings valued at \$87,292 which had been surveyed preliminary to scrapping, were returned to ready-for-issue status.

Index No. 16

B-133245, January 29, 1960

Examination of Selected Supply Management Activities of the United States Army, Ryukyu Islands, and Related Activities of the Marine Corps in the Ryukyu Islands

We noted that there was inadequate coordination in supply matters among the military services in the Ryukyus. We noted also that the United States Army Ryukyu Islands (USARYIS) was overstating needs and generating excesses for many items. In addition, there was an inability to meet demands for other items.

As a result of our review, the Marine Corps on Okinawa canceled requisitions to supply points in the United States for equipment valued at \$100,000 which USARYIS had on hand or on order specifically for the Marines. In addition, USARYIS canceled orders for unneeded items valued at \$100,000, reviewed for cancellation action additional orders valued at \$150,000, and redistributed many excess items, including furniture valued at about \$700,000, to other organizations.

With respect to the weaknesses noted in agency procedures, certain corrective actions were taken during or immediately subsequent to our review and the Assistant Secretary of the Army (Logistics) has concurred in our recommendations for additional actions in various areas.

Index No. 17

B-133255, January 29, 1960

Review of Procurement of Airframe Spare Parts and Ammunition at Ogden Air Materiel Area, Department of the Air Force

The prolonged delay of the Air Force in providing for electrical testing and repair of damaged aircraft radomes resulted in unnecessary purchasing of new spare radomes and continuance of maintenance problems. After 4 years of study the Air Force had not provided either sufficient Air Force test facilities or contractual services to meet its radome repair requirements. As a result, the Air Force had to purchase new radomes which otherwise would not have been needed. In the case of the Ogden Air Materiel Area (OOAMA) over \$110,000 was spent for new radomes in fiscal years 1957 and 1958, and there was again a critical shortage of serviceable spare radomes at the end of fiscal year 1959, with no capability of restoring the ample stocks of reparables to serviceable condition.

We also found that OOAMA supply officials did not have adequate controls to enable them to adjust procurement promptly to current requirements and that about \$675,500 worth of aircraft parts and ammunition on order was excess to the then current requirements. When we brought this condition to the attention of agency officials, the Air Force canceled the remaining undelivered quantities at estimated savings of about \$362,500, and took steps to correct the procedural deficiencies disclosed by our review.

Index No. 27

B-133274, February 29, 1960

Review of Management of Aeronautical Spare Parts by Middletown Air Materiel Area, Department of the Air Force

Because of the Department of Defense policy regarding redistribution of assets in effect at the time of our review, the Department of the Air Force did not disclose to the Army that it had materiel excess to short-range needs that might be used to meet current Army requirements. Further, even when the Army was advised of the existence of aeronautical materiel excess to the Air Force's long-range needs, the Army failed to request the materiel, although it had a valid requirement of the materiel at that time. As a result, the Army was buying new items to fill its requirements while the Air Force was either disposing of as surplus or holding in an inactive status materiel that would have filled at least a portion of the Army's needs.

As a result of our review, over \$3.8 million worth of Air Force parts were transferred to the Army and the Army terminated contracts for identical items amounting to about \$1 million. After our review the Department of Defense established new policies for the transfer of supply inventories among the services. We believe that implementation of these policies by the military services should help prevent buying of common-use items by one service while another has materiel available for interservice transfer.

We found also that consideration was not given to the extent to which \$8.4 million worth of excess parts in Air Force inventories could have been used by the contractor in the production of helicopters under Air Force contracts for the Army and military assistance program countries. Significant savings could have resulted from such use of the excess materiel.

This report also discloses that excessive costs were incurred by the Air Force in the procurement of spare parts for C-123 aircraft and that the Middletown Air Materiel Area's failure to repair materiel within prescribed repair-cycle times resulted in ineffective spare-parts support and the grounding of first-line aircraft.

Index No. 34

B-133019, April 29, 1960

Review of Selected Supply Activities at San Bernardino Air Materiel Area, Department of the Air Force

The report presents our findings that (1) a premature and unauthorized bulk movement of material, at a cost to the Government of over \$500,000, would have been made if we had not brought the matter to the attention of management officials, (2) unnecessary costs of about \$20,000 per month were being incurred because the San Bernardino Air Materiel Area shipped from its own inventory instead of from stocks at depots located closer to the using activities, (3) repetitive requisitioning practices resulted in substantial unnecessary costs amounting to an estimated \$500,000 annually, (4) increased costs were incurred through insufficient use of direct shipments from suppliers to using units, (5) supply support was delayed through reliance on supplementary stock-control records of questionable accuracy, and (6) filling of requisitions was delayed by failure to promptly record material received at the depot.

Index No. 42

B-133313, May 31, 1960

Review of Supply Management of Electronic Supplies and Equipment within the Department of Defense

Inadequate coordination of electronics supply management activities among and between the military departments resulted in significant additional costs to the Government and adversely affected the efficiency and effectiveness of supply operations. Unnecessary purchases and inadequate supply support resulted from the failure to consider and obtain needed items available and in long supply in other services; excessive costs and inefficient supply support resulted from the failure to coordinate the various repair and overhaul activities of each service.

There was also a costly duplication and overlap of electronic supply management functions and organizations.

We identified major electronic equipment and components valued at about \$20 million which were required by the individual services to satisfy current needs and were available for transfer from the other services. We apprised appropriate officials, and as a result transfers of over \$16 million were initiated or accomplished. These transfers resulted in the cancellation or suspension of procurement actions valued in excess of \$3 million.

Our review disclosed that electronic equipment valued at over \$2.5 million was being, or was programed to be, repaired unnecessarily at estimated costs exceeding \$680,000, when usable items were available and in long supply in the other services. We also noted that the services were not considering maintenance facilities and maintenance personnel, not being fully utilized in the other services, to overcome their repair backlogs.

We also found that unnecessary administrative costs are being incurred because there are six independent organizations performing the same or similar stock-management functions. Combining of the organizations and functions could be expected to effect significant reductions in the present administrative costs which exceed \$25 million annually.

Index No. 49

B-133324, August 11, 1960

Review of Supply Management Activities, United States Marine Corps, Department of the Navy

Significant weaknesses in supply management control resulted in unnecessary expenditures and adversely affected the supply support provided the operating forces of the Marine Corps.

Procedures followed by the Marine Corps in determining the quantities of materials to be procured were inefficient and uneconomical. For example, action had not been taken to reduce procurement programs in response to changes in requirements and consequently the Marine Corps had under contract, but undelivered, quantities of supplies costing about \$4.2 million which were excess to requirements. Also, the Marine Corps planned to buy other items, valued at \$2.4 million, which were excess to requirements. Subsequent to our bringing this situation to the attention of Marine Corps representatives, contracts were terminated or reduced by about \$2.4 million and planned procurements were reduced by about \$1.1 million.

Stock records and reports used by management were inaccurate, resulting in ineffective supply management. In addition, controls over repair programs for stocks in the Marine Corps supply system were weak, resulting in poor supply support, unnecessary procurement, and higher costs than necessary for repairs. Also, excess stocks were not being promptly identified and processed for disposal and in some instances stocks were disposed of as excess when an alternative method of disposal would have been to the advantage of the Government.

Index No. 50

B-125073, August 31, 1960

Review of Air Item Supply Operations at the Transportation Materiel Command, Department of the Army, St. Louis, Missouri

The Transportation Materiel Command (TCMAC) was not providing economical and effective supply support for Army aircraft because of serious deficiencies in the supply procedures. We found, for example, that the Army had on hand over \$22.2 million worth of certain aircraft items or about twice the amount needed for current operations.

We found also that TCMAC was purchasing aircraft parts while similar items were available, as excess property, from the other military services. When we called this to TCMAC's attention, it acquired needed spare parts, valued at \$428,900, from the Air Force and the Navy and was able to cancel procurement contracts already awarded in the amount of \$333,500.

Index No. 55

B-133336, November 18, 1960

Review of the Need for Procurement of Electric and Telephone Line Construction Trucks by the Department of the Air Force

The Department of the Air Force procured 63 commercial-type trucks at a cost of about \$365,000, while at the same time military-type trucks designed to

perform the same basic purpose were available for transfer from the Department of the Army.

The Air Force decision to proceed with the procurement was made after we had advised the Air Force of the existence of the Army trucks and after the Army had offered the vehicles to the Air Force at 25 percent of the cost of the vehicles to the Army.

Index No. 68

B-133313, January 31, 1961

Review of Supply Management of Selected Electronic Equipment Programs,
Department of the Navy

Our report presented findings with respect to weaknesses in the Navy's supply management of expensive aeronautical electronic equipment. The Navy was overstating its requirements for such equipment by many millions of dollars because of deficient procedures for computing needs and unsatisfactory accounting control and reporting of equipment on hand. Also, the Navy was holding equipment valued at more than \$7,500,000 in a reserved status for unnecessarily extended periods thus preventing the use of this equipment to meet current needs.

As a result of our findings and the subsequent review made by the Navy, plans to buy about \$8.8 million worth of equipment were canceled.

Index No. 70

B-133349, February 9, 1961

Review of Supply Activities of United States Army, Japan Depot-Complex

Supply management of Transportation, Ordnance, and Quartermaster stocks at the Depot-Complex was not being performed in an effective manner. Our review disclosed that requirements were overstated by approximately \$2.2 million, stocks valued at \$775,000 were being reserved or retained to fill requirements which no longer existed, and numerous customer requirements were not being filled on a timely basis. Deficiencies contributing to these conditions included (1) improper requirements determinations, (2) inaccurate stock and locator records, and (3) improper management and reporting of reserved material. As a result of our bringing these matters to their attention, depot officials canceled orders on continental United States sources valued at approximately \$1.7 million, released for unrestricted use material in the amount of \$775,000 reserved for equipment rebuild programs which had been completed, substantially reduced authorized stockage objectives, recomputed requirements, and had material excess to the needs of customers returned to the depot to be used to fill other requirements.

Index No. 72

B-125030, February 14, 1961

Follow-up Review of Department of the Air Force Practices with Regard to Fuel Used by General Electric Company, Aircraft Gas Turbine Division, Evandale, Ohio

On August 30, 1956, the General Accounting Office issued an earlier report (B-125030) to the Secretary of the Air Force on "Review of Practices and Procedures for the Furnishing of Aircraft Fuel to Aircraft Engine Contractors in the Department of the Air Force." Copies were sent to interested congressional committees. The report indicated the savings which the Government could expect to realize from supplying aircraft fuel to four leading aircraft engine manufacturers. The General Electric facility at Evandale was one of these manufacturers. We reported that the use of Government-furnished fuel by such manufacturers would result in substantial annual savings through the elimination of contractor profits on the basic cost of fuels and the lower unit prices that would be possible because of larger volume purchasing by the Military Petroleum Purchasing Agency. A survey made by Headquarters, Air Material Command, at all aircraft engine and airframe producers, as we had recommended, likewise disclosed that, in most instances, savings could be realized if Government-furnished fuel were used by these producers.

In our follow-up review at General Electric, we found that fuel continued to be furnished by the contractor rather than by the Government until March 1, 1960. We estimated that, during the 17-month period from September 30, 1958, to March 1, 1960, the additional cost of contractor-furnished fuel approximated \$113,000.

Index No. 75

B-133324, March 17, 1961

Review of Supply Management Activities of the Marine Corps Air Facility, Iwakuni, Japan, Department of the Navy

A relatively high percentage of the aircraft of the First Marine Aircraft Wing were out of commission because parts needed to keep them in operating condition were not available in the Navy supply system in Japan. From 25 to 50 percent of first-line fighter aircraft were grounded for lack of parts. This condition existed even though the Air Facility had an inventory of aviation material and spare parts amounting to over \$6.2 million and had on order from the United States over \$1.2 million worth of material that was not needed. Essential aircraft parts had not been stocked in Japan for periods ranging from 9 to 22 months; while, on the other hand, orders had been placed for items for support of aircraft no longer assigned to the Air Facility in Japan.

As a result of our findings, action was taken to cancel the requisitions for \$1.2 million worth of unneeded material and corrective action was initiated on a number of measures we proposed to remedy the deficiencies we noted in supply control.

Index No. 81

B-133019, May 10, 1961

Review of Reciprocating Engine Spare Parts Procurement and Repair Requirements, San Antonio Air Materiel Area, Department of the Air Force

The requirements of the San Antonio Air Materiel Area (SAAMA) for fiscal year 1959 and 1960 for the procurement and the repair of reciprocating engine spare parts were overstated by almost \$2 million. This was due to SAAMA's failure, when computing these requirements, either (1) to take into consideration more than \$1.4 million worth of Government-owned spare parts in the hands of engine overhaul contractors or (2) to revise spare parts repair schedules in accordance with latest program changes. As a result, about \$456,000 worth of spare parts were bought unnecessarily by SAAMA in fiscal year 1959.

We brought this to the attention of SAAMA officials, and they were able to reduce computed requirements for fiscal year 1960 by \$441,000 before procurement action had been initiated. Our disclosures also caused SAAMA officials to adjust their spare parts repair schedules so as to prevent an unnecessary expenditure of over \$1 million for the repair of parts in excess of Air Force needs.

Index No. 84

B-132990, May 31, 1961

Review of Supply Activities of the United States Army Signal Depot, Ascom City, Korea

There were significant weaknesses in the management and control of signal stocks by the Depot. As a result of inadequate management, the Depot had ordered from the Continental United States (CONUS) substantially more material than was actually needed to supply supported organizations. Our review disclosed that orders for material valued at \$1.1 million had been placed with CONUS supply sources in excess of requirements, and subsequent reviews by Depot personnel identified an additional \$1 million in excess orders. We also found that in many instances combat units had not been furnished with items they needed although the materials were on hand.

Deficiencies contributing to these conditions included (1) ordering of major items from CONUS to replace unserviceable items, although the items being replaced were in excess of actual requirements, (2) improperly establishing stockage objectives because published replacement factors were used when adequate demand data was available for use in such computations, (3) failure to satisfy needs for end items by assembly of available excess components, (4) inaccurate stock records, and (5) failure to fill requisitions when stocks were available for issue.

After we brought our findings to the attention of Depot officials, they canceled orders with CONUS valued at \$2.1 million, released for general issue stocks at a reserve location, accelerated the physical inventory program to correct stock records, and initiated a review of the various aspects of requirements computations which may result in additional cancellations of orders with CONUS.

Index No. 91

B-133372, June 30, 1961

Review of Management of Idle Production Equipment within the Department of Defense

Our limited review disclosed that inadequate management and coordination of idle production equipment activities among and between the military departments resulted in significant additional costs to the Government and adversely affected the utilization of idle assets in lieu of new acquisitions. Unnecessary purchases resulted from failure of the military departments to use suitable idle equipment available within the Department of Defense; the use of different identification numbering systems for common-use items interfered with the interservice utilization of idle assets; and there were costly duplication and overlap of idle production equipment management functions and organizations.

Index No. 93

B-133376, June 30, 1961

Review of Planned Procurement and Concurrent Disposal of Compressed Gas Cylinders, Corps of Engineers, Department of the Army

The Army started a program to replace cylinders of a pressure capacity of 2,015 pounds per square inch (p.s.i.) with cylinders of a higher capacity of 2,265 p.s.i. without evaluation of the limited benefits to be obtained in relation to the estimated \$6 million procurement cost. Initial procurement in the amount of \$2 million was approved for fiscal year 1961, while at the same time disposal of 20,612 cylinders valued at \$749,409 was in process.

We questioned the need to replace good cylinders and the Army (1) canceled the planned procurement program, (2) recovered 15,139 cylinders valued at \$549,645 from disposal, and (3) reestablished the lower pressure cylinders on hand for unlimited use throughout the supply system.

Index No. 94

B-133361, June 30, 1961

Review of Management within the Department of the Air Force of Replacement Equipment

Millions of dollars' worth of replacement equipment was needlessly purchased in fiscal year 1960 because the Air Force did not have an effective means of knowing the quantity and location of the equipment it already owned. Our review, which was limited to about 1 percent of the items and 12 percent of the value of the \$2.8 billion inventory reported, established that about \$164 million worth of the items selected for examination had been previously procured but was neither included by using organizations in the inventory reports used in computing the requirements nor otherwise accounted for.

We estimated that over \$6.7 million worth of replacement equipment purchased in fiscal year 1960 could have been avoided, and requirements for another \$20.8 million, on which procurement was deferred principally for lack of funds, could have been eliminated had the Air Force maintained effective control over the equipment procured and received in the supply system.

Index No. 98

B-133313, September 15, 1961

Review of Interservice Utilization of Aeronautical Equipment and Supplies within the Department of Defense

We reported that, despite improvements made in recent years, the Interservice Supply Support Program has fallen short of achieving the fullest practicable utilization of available materiel. The failure of the individual military departments to utilize supplies already available within DOD to meet each other's needs is resulting in unnecessary procurement and repair of materiel at significant additional cost to the Government.

We identified \$21.3 million worth of aeronautical materiel in long supply or excess in the individual services, which had not been redistributed to fill existing requirements in other services. We apprised appropriate officials of this and interservice transfers of \$21.3 million worth of materiel were arranged. This enabled the recipient services to terminate or cancel certain of their existing contracts (\$2.2 million), current procurement requirements (\$4.7 million), and scheduled repairs (\$578,000). About \$2.4 million worth of unnecessary procurements that had been made could not be terminated economically because the items either had been delivered or were in advanced stages of production.

Index No. 103

B-133177, October 12, 1961

Review of Materiel Standardization Activities of the Military Clothing and Textile Supply Agency, Department of Defense Philadelphia, Pennsylvania

The Government was annually incurring significant unnecessary costs because the military services would not agree to maximum practicable standardization of size ranges, design, fabric, and shades of color of clothing and textile items used by them for the same general purpose and the Military Clothing and Textile Supply Agency (MC&TSA) lacked the authority to resolve such disagreements. For 57 clothing and textile items included in our review, we found that the Government was incurring unnecessary costs of approximately \$2.8 million annually because the military services had not agreed to the maximum practicable standardization of such features.

We estimated, for example, that unnecessary costs of \$681,800 were incurred annually by the Government because all the services had not agreed on maximum practicable standardization of size ranges and a single design for men's wool trousers. These disagreements involved such matters as widths of belt loops, design of waist and seat, and differences in the degree of straightness of the legs. Although the MC&TSA considered that such objections were minor, the individual services concluded that their requirements could not be combined into one specification and pattern.

Index No. 105

B-133397, October 16, 1961

Review of Requisitioning Actions by the Ordnance Supply Management Agency of the United States Army, Europe (Rear) Communications Zone, Orleans, France

Material valued at \$9.4 million in excess of the then current requirements was ordered by the agency from the continental United States (CONUS) because of inefficient supply management. We found evidence during our review of requisitions that many orders had been placed unnecessarily because of errors in management reports which the agency failed to review adequately.

When we brought the deficiencies to the attention of OSMA officials, they made a review of requisitions placed on CONUS to determine the full extent of over-ordering and subsequently canceled orders amounting to \$7.4 million; but \$2 million worth of the orders could not be canceled because the material was already on hand or in transit.

Index No. 107

B-133125, October 31, 1961

Review of Army Signal Supply Operations, United States Army, Europe (Rear) Communications Zone, Orleans, France

The Signal Supply Control Agency (SSCA), Maison Forte, France, was not performing its supply mission in an economical and efficient manner because of inadequate supply practices, procedures, and management controls. We found, that (1) stocks valued at about \$5 million had been ordered from the United States unnecessarily because of failure to consider the use of acceptable substitute items, (2) additional orders valued at \$8.1 million for war reserve requirements were substantially overstated because of erroneous computations, (3) stocks valued in excess of \$4.2 million were reserved for special purposes without sufficient justification and were thereby not available to meet other needs in Europe and other areas, (4) peacetime operating stock levels were overstated by \$1 million for some items and understated by \$1 million for others, and (5) requisitions from Seventh Army units for signal items were not filled for extended period of time although in most cases sufficient stocks were on hand in the depots.

The Agency took action on some of the specific matters identified during our current review. It canceled or suspended orders valued at about \$11 million, but it was too late to cancel an additional \$2.1 million worth of unnecessary orders as the items had already been delivered.

In January 1959, we reported to the Congress on our previous review of the signal supply operations in Europe (B-133125). Despite the Department of the Army's assurances at that time of corrective action to be taken, our current review disclosed essentially the same deficiencies and inefficient management. We therefore recommended that additional steps be taken to improve the management of signal inventories in Europe, including the establishment of a committee composed of the Agency's top operating personnel to review all high-dollar-value supply actions.

Index No. 108
B-146700, November 16, 1961

Review of Selected Activities in the Management of Food Supply by the Military Subsistence Supply Agency, Department of Defense

The Military Subsistence Supply Agency (MSSA) was incurring unnecessary costs in the procurement and supply of foodstuffs. We identified about \$1 million in unnecessary costs, although we did not attempt to establish the full magnitude of the excess costs since MSSA agreed with us on the seriousness of the problems we identified and the need for corrective action. With respect to nonperishables, we found significant deficiencies in the policies and procedures used by MSSA's customers for computing requirements. This resulted in the use of items in less economical size container or type of pack, redistribution of stocks, and procurement subsequent to the planned seasonal buy. Since MSSA had no control over computation of requirements, it did not possess the capability of determining the causes of its troubles and correcting them. Regarding perishables, excess cost resulted from MSSA's failure to charge commissary stores for transportation costs and from its use of distribution facilities in an uneconomical location.

During our review, MSSA took action to start adding the cost of transportation to the prices charged commissary stores; recovery of these costs will result in annual savings of about \$600,000. The Deputy Assistant Secretary of Defense (Supply and Services) advised us that the Department of Defense was taking action to implement our recommendations (1) to make MSSA responsible for the computation of the military services' requirements and (2) to determine the most economical location for a distribution facility.

Index No. 109
B-133014, November 30, 1961

Review of Practices followed in the Storage and Warehousing of Aircraft Parts and Equipment, Naval Air Station, Pensacola, Florida

The Naval Air Station at Pensacola, Florida, permitted older stocks to deteriorate on the shelves while newer stocks of like items were issued and used. The stocks that were unnecessarily allowed to deteriorate could not be used without incurring substantial inspection, test, and rework cost. During the period July 1, 1959, to June 30, 1961, parts valued at approximately \$2 million had to be withdrawn from stock for inspection, test, and rework because the items had been held in storage in excess of the periods during which they could have been safely used. Although actual costs of repairing overage material were not separable from other repair costs at the air station, our tests, together with cost estimates supplied by Navy personnel, indicate that the cost of restoring this material to usable condition would be about \$400,000. We found that many of these items could have been used without rework if station personnel had followed the practice of issuing oldest stock first.

Index No. 113
B-146712, December 29, 1961

Review of Supply Management of Ordnance Equipment and Spare Parts in the Department of the Navy

Our review disclosed deficiencies in management control which adversely affected the economy and efficiency of supply system operations. Our tests of spare parts purchases and other supply actions disclosed that unnecessary costs of about \$530,000 were incurred by purchasing materials in excess of needs because of inaccurate requirement computations and failure to cancel or reduce items on order no longer needed. In addition, items valued at \$340,000 were purchased to replace items which should have been turned in for repair and re-use, and unnecessary expenditures of \$379,000 were incurred or were planned to be incurred in repairing items of ordnance equipment even though there were excess quantities of serviceable items already in the system. Unnecessary costs of about \$1,000,000 also were incurred in recovering and returning to the supply system large quantities of items for which there was no need or which were of such insignificant value that recovery was not economical.

These deficiencies were due principally to weaknesses in the supply management system. The Navy indicated general agreement with our findings and conclusions and took certain actions to alleviate these deficiencies.

Index No. 115

B-133384, January 25, 1962

Review of the Utilization of Excess R3350-26WA Aircraft Engines as a Source for Spare Parts by the Department of the Navy

During the period January 1, 1959, to June 30, 1961, the Navy incurred unnecessary costs of about \$3,200,000 through the purchase of spare parts which could have been obtained by disassembling excess R3350-26WA engines already in the Navy supply system. Further, the Navy's records at June 30, 1961, indicated a need for additional purchases of spare parts amounting to about \$5,300,000 that could have been obtained through reclamation of parts from the 972 excess R3350-26WA engines on hand at that date. If the Navy had taken immediate action when we first brought this matter to the attention of responsible officials in May 1961, the Navy would have been able to terminate outstanding purchases amounting to about \$1,500,000 and to fill its additional needs for \$5,300,000 worth of parts through reclamation rather than through procurement. We estimated that the cost of reclaiming these parts would be about \$900,000.

The Department of the Navy advised us that it concurred with the economic aspects of obtaining needed engine parts from disassembly of excess engines rather than through the procurement of new parts and accordingly had developed a reclamation program.

Index No. 118

B-146711, January 31, 1962

Review of Supply Management of Photographic Supplies and Equipment within the Department of Defense

The military departments' inventories of photographic supplies and equipment exceed \$150 million and are substantially in excess of the amount required to provide adequate supply support. As a result, unnecessary costs have been incurred in the maintenance, repair, storage, transportation, recordkeeping, inspection, and handling of the unneeded supplies and equipment. Included in this inventory were at least 5,000 items with low unit cost and very little usage that are being managed on a centralized basis instead of being purchased as needed at the local user level. The Department of Defense estimates that the average cost to maintain a single item in the supply system is about \$1,000 annually. We did not make a detailed cost analysis, but it appears logical that the cost of managing many of the individual items may be less than the \$1,000. It is obvious, however, that significant savings can be realized if low-cost, low-usage items are purchased as needed at the local level.

In addition, we identified unnecessary purchases of items valued at more than \$1.9 million that were made or planned by the military departments when the items were available within the Department of Defense. These items were available because they were in excess of requirements or in long supply within a department. We also noted that photographic services, supplies, and facilities costing \$467,350 were duplicated by contractors and Government organizations at Patrick Air Force Base, Florida.

We were advised by the Department of Defense that the following immediate actions were taken: (1) inactive photographic items were reviewed for possible deletion from central control, (2) material valued at \$283,079 was or would be redistributed or returned from disposal for possible use, (3) customer orders and local procurements totaling \$157,763 were canceled, (4) items scheduled for repair at a cost of about \$61,000 were removed from the repair schedules, (5) existing long supplies would be reduced by at least \$9 million, and (6) improvements would be made in the management of photographic items at Patrick Air Force Base, Florida.

Index No. 120

B-133058, February 8, 1962

Review of the Supply Management of Ship Repair Parts by the Ships Parts Control Center, Mechanicsburg, Pennsylvania, Department of the Navy

The Center incurred unnecessary costs through weaknesses in its practices for managing ship repair parts. Tests of a limited number of transactions disclosed that the Center had authorized or permitted disposal of parts which had to be replaced by the purchase of new stocks of the identical parts at a cost of over \$700,000, had purchased or was purchasing parts valued at \$324,000 that were in excess of authorized stock levels, and had directed unnecessary redistributions of parts among the various Navy field installations.

The Navy agreed to take certain corrective measures to prevent these weaknesses from causing further unnecessary cost.

Index No. 133

B-133177, April 17, 1962

Review of Selected Supply Management Functions and Responsibilities of the Military Clothing and Textile Supply Agency, Department of Defense, Philadelphia, Pennsylvania

The Government will suffer significant losses since the Military Clothing and Textile Supply Agency (MC&TSA) procured clothing and textile items prematurely or in excess of current needs on the basis of requirements furnished by the military services. Also, losses will result because the MC&TSA procured defective materiel on the basis of specifications prepared by the military services. Losses amounting to \$385,000 will result from the necessity of disposing of one item at a reduced price and using a defective material for a purpose other than that for which intended.

There is a likelihood that much greater losses will be sustained to the extent that the Government is unable to realize full value on (1) an investment of about \$53 million in older acceptable items sufficient to meet 4 to 10 years' demands when the MC&TSA procured about \$10 million worth of clothing and textile materiel, including new styles of clothing items, and (2) an investment of about \$600,000 in defective clothing and textile materiel procured by the MC&TSA.

Index No. 135

B-133058, April 23, 1962

Review of the Procurement of Certain Major Shipboard Equipment by the Bureau of Ships, Department of the Navy

Our review of limited number of purchases of major shipboard equipment disclosed that overbuying in the amount of \$514,000 had resulted from the use of incorrect data in determining the quantities to be purchased. In one instance the Navy overbought because it used issues for an 18-month period as 12 months' issues in its computations of the quantity to be purchased. In other instances the Navy bought equipment for certain ships although its plans did not include installation of the equipment on those ships and bought equipment for other ships although those ships had reported that the equipment was already installed.

After we brought our findings to its attention, the Navy terminated a portion of its purchase commitments or these items. The net reduction in its commitments will be between \$224,000 and \$244,000. In the remaining cases contract termination was not deemed economical.

Index No. 137

B-146727, April 30, 1962

Review of the Procurement of Spare Parts and Assemblies for the Support of Naval Aircraft

The Navy bought or was in the process of buying \$85. million worth of spare aviation parts and assemblies that were excess to its needs. This overbuying resulted from failure to terminate outstanding contracts and purchase requisitions in accordance with reductions in needs and from other uneconomical procurement practices.

After our findings were brought to its attention, the Department of the Navy adopted corrective measures designed to provide greater assurance that the deficiencies noted during our review would be prevented in the future. In addition, the Navy, acting on the specific cases disclosed by our review, terminated outstanding contracts and purchase requisitions in those instances in which the Navy considered such action economical. The purchase commitments terminated totaled about \$2.5 million. After termination costs estimated at \$600,000 were deducted, the net reduction in purchase commitments amounted to about \$1.9 million. Also, arrangements were made for transfer to the Air Force of \$1.2 million worth of the unneeded purchases made by the Navy as well as \$654,000 worth of additional excess stocks of these same items.

Index No. 140

B-146730, May 17, 1962

Review of Interservice Supply Management and Utilization of Selected Aircraft Engines within the Department of Defense

Because of inadequate control in the Department of Defense over the interservice utilization of aircraft engines, the excess engines of one service frequently were not transferred to other services which had current or future needs for similar engines. This resulted in unnecessary purchases and unnecessary con-

version of aircraft engines. For the engine models included in our review, the Army, Navy, and Air Force incurred unnecessary costs of approximately \$4,160,000 through the purchase or conversion of engines by one service while similar excess engines were already on hand in another service. As a result of our review, 487 aircraft engines valued at approximately \$15,140,000 were transferred from those services which had excess engines to other services which had current or future needs for these engines. As a result of these engine transfers, the Department of the Navy was able to cancel the planned purchase of 101 engines at an estimated net saving of \$4,040,000. Transfer of the remaining engines should enable the services to reduce future purchases.

The Department of Defense agreed that more effective control over the procurement and utilization of aircraft engines was necessary. The Department stated that action had been taken to develop uniform controls and procedures to ensure optimum interservice utilization of available assets. The Department further stated that surveillance would be exercised in this area to ensure uniformity in requirement computations and in the utilization of available assets.

Index No. 152

B-133118, June 29, 1962

Review of the Supply Management of High-Value Repairable Aviation Assemblies and Equipment within the Department of the Navy.

The centralized inventory records maintained by the Navy's Aviation Supply Office (ASO) were inadequate for use in determining what quantities of high-value repairable assemblies and equipment should be purchased. We reconstructed stock records for 50 selected repairable aviation and equipment items. These reconstructed stock records showed that the consolidated Navy records at ASO did not include quantities of 31 of these items valued at more than \$47 million which should have been a part of its stock on hand. Tests at storage locations revealed that many such items were in the physical custody of the Navy but were not shown on its records. Further, the Navy purchased or was purchasing certain of these items costing about \$5.5 million. These purchases would not have been necessary if the Navy had located and recognized the stocks that were not recorded on its records. Also, additional purchases of about \$3.8 million could have been avoided by locating the unrecorded stock; however, we could not make a conclusive determination in these cases because we could not locate Navy records of the computations of the requirements for these items.

The items we reviewed constituted less than 1 percent of the different items in the Navy's stock of repairable assemblies and equipment but represented about 7 percent of the 950-million-dollar estimated value of such stocks. On the basis of our tests, it appears that in all likelihood additional repairable aviation assemblies and equipment worth several hundred million dollars which should be in Navy stocks are not shown on its records and that a substantial amount of unnecessary procurement has resulted from the lack of control over these items as well as those which we tested.

We recommended that the Department of the Navy undertake centralized monitoring of the accounting for stocks of these items and other related measures to provide more effective control over its stocks of high-value repairable assemblies and equipment.

Index No. 153

B-133177, June 29, 1962

Review of Supply Control and Inspection Activities of the Military Clothing and Textile Supply Agency, Department of Defense, Philadelphia, Pennsylvania

Between December 1957 and October 1960 the Government spent about \$20.4 million for 14 clothing and textile items that were not required for the then foreseeable needs. This occurred because the Military Clothing and Textile Supply Agency (MC&TSA) (1) procured quantities in excess of established, economical stockage objectives, (2) failed to make economical contract terminations, where possible, when previously forecast requirements were reduced after contract awards, and (3) failed to utilize inventories of available materials and acceptable substitute textiles as Government-furnished materials in lieu of additional procurement. We found also that the Government suffered losses totaling about \$220,000 because the MC&TSA, as the result of inadequate inspection of purchased materiel, accepted two defective clothing and textile items between April 1957 and December 1958.

During our review we brought to the attention of the MC&TSA several instances of unnecessary procurement. Subsequent to these disclosures, the

MC&TSA canceled a scheduled procurement, terminated an outstanding unnecessary procurement, and utilized stocks of excess textiles as Government-furnished material on end-item contracts and as substitutes in lieu of new procurement. As a result of these actions, new procurement amounting to about \$1.8 million was avoided.

We proposed to the Executive Director of the Military Clothing and Textile Supply Agency that he establish effective controls (1) to minimize the procurement of clothing and textile items in excess of foreseeable needs, (2) to obtain effective utilization of inventories of fabrics and textiles, including acceptable substitutes, carried primarily for furnishing to end-item contractors as Government-furnished material, and (3) to strengthen practices and procedures for inspecting purchased materiel. Actions taken and planned by the Agency were for the most part, substantially as we proposed.

Index No. 154

B-146730 June 29, 1962

Review of Reclamation of Spare Parts from Excess Aircraft Engines in the Departments of the Army, Navy, and Air Force

The Air Force and the Navy incurred costs of about \$2 million through the purchase of spare parts which could have been obtained by disassembling aircraft engines on hand but excess to the needs of the Department of Defense. Additionally, we found that the Air Force and the Navy could still obtain needed parts valued at approximately \$4,000,000 from excess engines on hand at the time of our review, at a cost of only about \$350,000 for disassembly and for restoring the parts to serviceable condition. As a result of our review, action was initiated to reclaim these parts. This will enable the two services to cancel planned purchases and to fill known future needs through reclamation rather than through procurement, with attendant savings estimated at \$3,650,000. While these cases did not involve the Army, and less similarity exists between Army engines and those of the other services than between Air Force and Navy engines, we believe it reasonable to assume that the Army also could benefit to some extent by participation in defensewide reclamation of aircraft engines. We were informed that in some cases the Army had participated in Air Force reclamation programs.

The Air Force had been conducting aircraft engine reclamation programs for a number of years, thereby effecting significant savings. However, we found no evidence that prior to our review these programs were coordinated with the Navy. We concluded that the reclamation of needed spare parts from excess engines should be controlled on a defensewide basis in order to assure the coordination necessary to obtain the maximum savings possible through the joint reclamation of parts from common or similar aircraft engines.

The Department of Defense advised that it recognized the need for uniform controls in this area and has issued or is developing additional procedures dealing with the reclamation of aeronautical spare parts.

Index No. 168

B-146748, August 31, 1962

Review of the Utilization of Excess and Surplus Personal Property within the Department of Defense

Unnecessary expenditures and failures in supply support involving equipment and supplies valued at many millions of dollars have occurred, and are continuing to occur, because the military services are not adequately considering and utilizing excess and surplus property prior to disposal. Our review disclosed also that the military services are concurrently buying and selling the same items and that items are being wastefully disposed of as surplus when established requirements exist within the Department of Defense (DOD).

On the basis of our limited review, we estimate that as much as, if not more than, \$65 million worth of excess and surplus property could have been and should have been claimed and utilized by the military services in addition to the amount recovered in fiscal year 1961 through DOD efforts. Further, this situation is likely to continue year after year if the DOD excess property utilization program is not improved.

The Assistant Secretary of Defense (Installations and Logistics) acknowledged the existence of the deficiencies cited in our report and agreed that corrective action was necessary. The Assistant Secretary advised us that a system is under development which will provide optimum utilization of assets. Inasmuch as the development and implementation of this system will require at least 18 months, we recommended certain interim measures to the Secretary of Defense which will minimize the types of deficiencies disclosed by our review.

Index No. 176

B-118755, October 5, 1962

Review of the Management of Selected Spare Parts for the Nike-Hercules Guided Missile Airborne Guidance Set in the Department of the Army

The Army Ordnance Missile Command procured excess quantities of three expensive repairable subcomponents of the NIKE-HERCULES airborne guidance set in an amount that we estimate at over \$800,000 from April 1958, when production of these subcomponents began, through March 1961. In addition, the Army had in process in March 1961 proposed orders for these same subcomponents amounting to over \$1.9 million, making a total of over \$2.7 million worth of excess actual and proposed procurement. Further, our estimate of excesses did not measure the full extent of the actual and planned overprocurement since in our computations we accepted certain factors used by the Army in making supply predictions that overstated needs.

These excess actual and planned procurements occurred primarily because the the Army lacked effective controls over supply transactions. For instance, although Army regulations require the prompt return of repairables, we found no effective method for assuring that this was done. As a result, although a substantial number of repairables were being generated, only a small fraction were being returned, thus needlessly increasing procurement needs. Similarly, users were requisitioning and maintaining in stock quantities in excess of justifiable needs which were being reported as issues made to replace unserviceable components. Such transactions both understate assets and overstate usage, each of which further inflates future procurement needs. Here again, although Army regulations prohibited this practice, we found no effective method for preventing it from occurring.

We recommended that (1) immediate action be taken to recover excess sub-components now in the supply system, (2) controls over the supply activity of expensive repairable items be strengthened, and (3) more realistic supply data be used in requirements computations.

Index No. 179

B-132983, October 29, 1962

Review of Sales of High-Temperature Alloy Scrap by Department of Defense Installations in the Continental United States

Military bases were still failing to properly identify, segregate, and dispose of high-temperature alloy scrap metals. As a result, the proceeds realized from the sale of such scrap were less than those which could have been realized if such activities were receiving adequate management attention at the local base level. Similar deficiencies were reported by this Office to the Department of Defense on May 16, 1960, after our initial review of this segment of the Department's disposal activities. During our recent review we noted that, at a few bases, local operating personnel had devised and introduced practices which resulted in more effective operations.

Although we are not able to estimate on an over-all basis the monetary losses to the Government resulting from failure to properly identify, segregate, and dispose of the valuable high-temperature alloy scrap generated by military bases, it is our opinion that substantial losses are being incurred.

The Assistant Secretary of Defense (Installations and Logistics) stated that, since the time of our most recent review, significant actions designed to improve the administration, procedures, and operating practices in this area had been taken by the Department, and he enumerated seven such measures. These actions taken or proposed are in several respects similar to those actions reported to have been taken when the then Deputy Assistant Secretary replied on August 2, 1960, to the earlier report issued by this Office.

Index No. 181

B-133058, November 7, 1962

Review of Supply Management of Submarine Equipment and Spare Parts in the Department of the Navy

The Navy had purchased submarine parts and equipment totaling about \$1,036,500 in excess of its current needs and was planning to purchase additional parts and equipment not currently needed, amounting to about \$732,300. This resulted from uneconomical practices followed in determining the quantities of material to be purchased, including (1) use of excessive allowances for time required to recondition repairable items, (2) lack of coordination between the Bureau

of Ships and the inventory manager, (3) use of incorrect data in computing estimated needs, (4) inadequate planning for material needed for submarine alterations, (5) unjustified increases in quantities of insurance-type items for emergency purposes, and (6) ineffective determination of quantities of items to be stocked aboard submarine tenders. As a result of our review, the Navy canceled planned purchases totaling \$302,300 and deferred action on the remaining \$430,000 worth of planned purchases which we considered to be excess to current needs, pending further analysis by the Navy.

Index No. 183

B-132989, November 30, 1962

Review of Management of Jet Aircraft Engines by the Air Training Command in its Ground Training Programs for the Department of the Air Force

The lack of effective management by the Air Training Command over the need for, use, and disposition of jet aircraft engines for its ground training programs unnecessarily increased the planned procurement of the Air Force. The Air Training Command placed orders with the Air Force Systems Command for jet aircraft engines although suitable older series engines were already available in the Air Force inventory. In addition, the Training Command did not, in some cases, set realistic requirements or control effectively the use and disposition of jet aircraft engines acquired for its training programs. As a result, the Training Command either had on hand or was scheduled to acquire 28 jet aircraft engines costing about \$5.3 million that were not essential to the training programs and which could have been used to reduce planned Air Force procurement.

After we brought these conditions to the attention of appropriate officials of the Air Force, 11 jet engines with acquisition costs totaling \$2.7 million were transferred to the Air Force Logistics Command without replacement, orders for 2 engines with acquisition costs of \$480,000 were canceled, and 15 jet engines costing about \$2.1 million were exchanged for older series engines that were suitable for training purposes. Through these transfers, cancellations, and exchanges the Air Force has been able to reduce planned procurement of jet engines at an estimated net saving of \$4.3 million.

Index No. 192

B-146765, January 31, 1963

Review of the Need for the Navy's Mobilization Reserve of Commercial-Type Vehicles

The Navy had purchased and was maintaining a reserve stock of commercial-type vehicles for use in the event of mobilization without determining whether the automotive industry could provide the Navy with the required vehicles in time to meet its mobilization needs if such an emergency occurred. At December 31, 1961, the Navy had 1,959 vehicles valued at about \$6,800,000 in its mobilization stock. The estimated annual cost of maintenance and interest on the Government's investment to keep the reserve stock at that level was about \$550,000. The Navy planned to furnish these vehicles to operating units over a 5-month period if mobilization occurred. Information provided to us by vehicle manufacturers indicated that for the most part this reserve was unnecessary since, in the event of mobilization, these manufacturers had the productive capacity to provide the Navy with all but a negligible quantity of the needed vehicles within the time requirements prescribed by the Navy.

The Navy stated that, after it was advised of our findings, representatives of the Department of Defense met with representatives of the automotive industry to determine industry's capability to satisfy Navy's mobilization needs and to explore the feasibility of entering into firm agreements to assure delivery. At the meeting with vehicle manufacturers, the representatives of the Department of Defense were assured that industry would have the capability to meet practically all the Navy's needs for high-volume commercial-type vehicles but that studies of the capability of special body and component manufacturers would be necessary before it could be determined whether the remainder of the Navy's needs could be fulfilled within the time limits required by the Navy.

We recommended that the Department of Defense inquire into mobilization reserves of other commercial-type items to determine whether adequate consideration has been given to industry's ability to meet the mobilization requirements for these items.

Index No. 194

B-146725, February 8, 1963

Review of Determination of Needs for Major Spare Components Placed at Supply Depots and on Vessels for Short-Range Guided Missiles, Department of the Navy

The Navy awarded contracts for major spare components for the repair of TERRIER, TARTAR, and TALOS missiles that were in excess of needs by \$1.8 million and was in the process of allocating funds for additional procurement of major spare components that were also in excess of needs by about \$1 million. The actual and proposed procurements in excess of needs by \$2.8 million resulted from (1) erroneous computation of quantities of spare missile components needed for depot stocks and to fill vessel allowances and (2) failure to reevaluate requirements and adjust procurements when requirements were reduced.

As a result of our bringing this matter to the attention of the Navy, the Navy took action to reduce planned procurements by about \$620,000 and canceled outstanding procurements by about \$164,000.

Index No. 196

B-146727, February 15, 1963

The Failure of the Department of the Navy to Use Its Excess Spare Parts and Assemblies in the Production of Navy Aircraft

Although the Navy had spare parts and assemblies for F8U-type aircraft, valued at \$2,292,000, that were excess to authorized retention levels, no action was taken by the Navy to transfer these parts and assemblies to the Chance Vought Corp. for use in the production of new F8U-type aircraft. Further, we found that the Navy had no established procedures for identifying such excesses and arranging for their use by contractors producing aircraft for the Navy. Our review of Chance Vought's records of materials needed for the production of F8U-type aircraft disclosed that about \$1,977,000, or about 86 percent of these excess spare parts and assemblies, could have been used in aircraft production during fiscal years 1960, 1961, and 1962.

In response to our proposals, the Navy transferred excess spare parts and assemblies, valued at \$893,000, to contractors for use in the production of aircraft ordered by the Navy during fiscal year 1962. Further, the Navy initiated action for the transfer of additional excess parts, valued at \$789,000, for use in the production of aircraft ordered by the Navy during fiscal year 1963. The Navy stated also that instructions were being promulgated that would, in effect, provide a permanent program for identifying excess parts and assemblies and using these excess items in aircraft production.

Index No. 199

B-146773, February 26, 1963

Review of Unnecessary Deterioration of Unused Rubber Tracks for Army Combat Vehicles

The Government incurred unnecessary cost of about \$5 million in fiscal year 1960 to rebuild unused deteriorated tracks for tanks and other combat vehicles because the Army allowed these tracks to deteriorate in storage. The deterioration of the rubber tracks was caused by failure to (1) issue oldest tracks first by a slight modification of the tracks, (2) furnish tracks to contractors for use in production of new vehicles, and (3) protect the tracks by storing them inside.

The management weaknesses disclosed in this report on rubber track are the type that could pertain to all of the Army's replacement parts which are subject to loss of serviceability through deterioration. Accordingly, we recommended that the Secretary of the Army require the Army Materiel Command to review such items and take the necessary actions to provide that they are protected to the maximum extent practicable from the elements causing deterioration and that the oldest stocks are issued before the more recently procured stocks. Where improvements have been made to the item, consideration should be given to making appropriate modifications to the stock in storage so that this stock can be issued before it deteriorates and before large quantities of the new version are procured. In addition, consideration should be given to issuing older stocks as Government-furnished property on new end items being procured.

Index No. 203

B-146769, February 27, 1963

Review of Unnecessary Planned Procurement of Generators by the Department of the Army

The Army was planning to buy, at a cost of about \$6.3 million, 1,365 unneeded generator sets as a result of failure (1) to provide for the continued use of acceptable substitute 30-kilowatt generators already on hand, (2) to consider a reduction in the need for generators because of the conversion to commercial power sources, (3) to use the actual rather than the estimated wear-out rates in determining the need to procure new generators, and (4) to utilize 10-kilowatt generators available in the Department of the Navy.

When we presented our findings to Corps of Engineers officials, they canceled purchase requests for 466 generators in fiscal year 1961 worth \$2.2 million, eliminated planned procurement for 1962 of 484 generators worth \$2.4 million, and reduced planned procurement for subsequent years. Procurement of 45-kilowatt generators could have been reduced by an additional 316 generators worth \$1.5 million had the Corps of Engineers not unnecessarily disposed of a like number of acceptable substitute 30-kilowatt generators in the years 1959 and 1960. The Corps of Engineers did suspend further disposals when we pointed out the continuing need for these items. After we suggested that the Corps of Engineers consider use of the excess Navy 10-kilowatt generators similar to units the Corps of Engineers was procuring, the Corps obtained 124 units worth \$232,000 and took action to provide for more careful review of material declared excess by the other military departments.

Although the Corps of Engineers has taken considerable corrective action, we believe that further action should be taken by the Department of the Army to assure maximum utilization of the less expensive 30-kilowatt generators as substitutes for the 45-kilowatt generators. We therefore recommended that the Army make an examination into the actual power requirements of generator users to determine whether greater utilization of the 30-kilowatt generators can be obtained.

Index No. 205

B-146769, February 28, 1963

Improvident Disposals of Crane Shovels and Unnecessary Procurement of Outboard Motors under a Modernization Program of the Department of the Army

The Corps of Engineers, on the basis of a general modernization program, disposed of 25 10-ton crane shovels, costing \$541,200 and in unused or economically repairable condition, while planning to spend about \$12 million to replace them and others in the system with crane shovels of similar capacity over the period 1965 through 1967. This action was taken despite the fact that (1) many of the items to be replaced were in depot stocks in new condition, (2) the actual condition and economic reparability of equipment in the hands of troops had not been considered, and (3) the Corps had determined that there were no material technological improvements in current models of these items, nor were any anticipated. The Corps of Engineers also disposed of about \$350,000 worth of repair parts for the crane shovels as unneeded. An additional \$146,000 worth of repair parts was recovered from various disposal stages as a result of our pointing out a continuing need for the parts. In a similar case, the Corps of Engineers has already spent \$575,000, and plans to spend an additional \$321,000, to replace unused 25-horsepower outboard motors in inventory even though current models offer no material technological improvements. These disposal and procurement programs were in accordance with policies approved by the Department of the Army for application to all major items of engineer equipment.

We proposed that, in all cases where a significant quantity of equipment is approaching the standard age at which allowable repairs will be reduced to a nominal amount, the Secretary of the Army require (1) that a determination be made as to whether technological improvements in items then available for procurement warrant prompt replacement of the items on hand as being obsolete regardless of age or condition and (2) that, when it is determined that technological improvements are not sufficient to warrant prompt replacement, a determination including appropriate physical tests to be made to establish usage and repair criteria for such items to accomplish the maximum economical use which can be made of the equipment and repair parts remaining in the system before planning for longer range major replacement.

The Assistant Secretary of the Army (Installations and Logistics) advised us that our proposals will be incorporated in a revision of the Army Regulation containing repair and overhaul criteria for engineer equipment.

STOCK FUNDS AND RELATED CONSUMER FUNDS

Index No. 150

B-145331, June 13, 1962

Review of Stock Funds and Related Consumer Funds in the Department of Defense, Part I

This phase of our review, identified as Part I, deals with the manner in which combat and combat-support activities of the Army, Navy, and Marine Corps use funds, known as "consumer funds," allotted to them from the appropriations for operation and maintenance, to purchase repair parts and other combat materiel from the stock funds. We did not make any detailed reviews at Air Force activities since they do not use consumer funds for their major combat repair parts.

This review was initiated in response to a request from the Speaker of the House of Representatives on behalf of himself, Senator Douglas, and Congressmen Hébert and Curtis.

This phase of our review disclosed that, at the installations which we visited, military activities resorted to uneconomical practices such as (1) failing to cancel excess items on order from the stock funds, valued at nearly \$1.4 million, (2) ordering from the stock funds parts and materiel amounting to at least \$185,000 that were not currently needed or were needed less than other items, (3) establishing costly duplicate supply activities that also led to accumulation of over \$330,000 worth of excess stock, (4) unnecessarily shipping equipment at a cost of over \$120,000, (5) returning needed items for credit, and (6) unnecessarily removing parts from equipment. We found also some instances of illegal practices such as obligating consumer funds after the authority to obligate these funds had expired, improperly obtaining stock fund credits, and improperly obligating subsequent year's consumer funds. The immediate cause of these actions was that military activities wanted either to assure that all available consumer funds were obligated by the end of a fiscal period or to overcome consumer fund shortages at the individual combat and combat-support levels.

Index No. 188

B-145331, December 28, 1962

Review of Stock Funds and Related Consumer Funds in the Department of Defense, Part II

This report, identified as Part II, covers the second phase of our review and deals with the effect on military operations of the requirement that Army, Navy, and Marine Corps combat and combat-support units pay for stock fund repair parts and other combat materiel from consumer funds allotted to them from the Operation and Maintenance Appropriations. Our report on Part I of this study, which covered the review of the manner in which combat and combat-support units of the Army, Navy, and Marine Corps used their funds to purchase materiel from the stock fund, was issued to the Congress on June 13, 1962 (B-145331).

This phase of our review disclosed that the preparedness of combat troop units in the United States and overseas areas, and of individual Navy combat and service ships of the Atlantic and Pacific fleets, was being seriously affected by their inability to obtain repair parts and other materiel required for combat readiness although such materiel was available in the stock fund inventory. We found that the immediate cause for this was the insufficiency of consumer funds at the level of the troop units or ships to purchase this materiel from the stock funds. The inability to obtain the needed materiel significantly contributed to or was directly responsible for combat vehicles and other equipment being in an unserviceable condition, training of troops being seriously curtailed, and ships being operated without certain essential materiel on board that would be needed in an emergency.

In view of these findings and in view of our findings reported in Part I as to the uneconomical and illegal practices resorted to by combat and combat-support units because of insufficient or excess consumer funds at these levels, we proposed that the Secretary of Defense have the military departments discontinue the use of consumer funds for repair parts and other combat materiel at the combat and combat-support levels. Since adoption of this proposal would require certain changes in providing funds for procurement purposes, we proposed further that the Secretary of Defense either (1) provide that consumer funds for repair parts

and other combat materiel remain at the departmental levels rather than be allotted to and through the various command strata and that the procuring activities be reimbursed from these funds as materiel is issued to users or (2) eliminate completely the use of such consumer funds for repair parts and other combat materiel and have this materiel financed by annual appropriations from the Congress.

The Department of Defense acknowledged that the matters identified in our examination indicated areas for review and improvement of stock fund and consumer fund operations and advised us of certain actions that were being taken.

PROCUREMENT

Index No. 3

B-133133, November 25, 1959

Examination of the Pricing of Department of the Air Force Contracts AF 30(635)-3494 and AF 30(635)-3666 with Northern Radio Company, Incorporated, New York, N.Y.

Price proposals submitted by Northern Radio, and used in negotiating prices of the contracts, included estimates for labor costs of \$428,900 which were about \$223,000 in excess of costs incurred by Northern Radio under preceding Air Force contracts for the same items. The Air Force accepted the labor cost estimates without making a critical review and comparison of those estimates with prior cost experience. When the contractor's overhead and profit allowances related to the excess labor cost estimates are considered, the prices to the Government under the two contracts were excessive by about \$543,000.

We were informed by the Air Force that the contractor had refused to furnish experienced cost data at the time of negotiations. We recommended to the Secretary of Defense that the Armed Services Procurement Regulation be expanded to provide specific guidance to contracting officials in circumstances where cost and price analysis is appropriate and the contractor refuses to furnish sufficient cost data to permit adequate analysis. We also recommended to the Secretary of the Air Force that all possible action be taken to recover for the Government the excess costs incurred under these contracts.

Index No. 4

B-118663, November 30, 1959

Examination of the Pricing of Fixed-Price Subcontracts Issued to General Electric Company by American Bosch Arma Corporation for B-52 Bomber Fire Control Radar under Department of the Air Force Contracts.

Proposed prices submitted by General Electric Company (GE) for use in negotiating firm fixed-price subcontracts with American Bosch Arma Corporation (Arma) were based on estimates of costs which were in excess of costs known to GE or which GE could reasonably expect to incur in performing the subcontracts. Arma accepted, without review, the prices proposed by GE. In addition, Arma, in buying spare parts from GE at catalog prices, did not effect obvious cost savings by placing orders for spare parts in economical quantities.

GE, in commenting on our findings, informed us that price reductions would be made on its subcontracts, including those which we did not examine in detail. These price reductions totaled \$3,408,800. In October 1959, the Assistant Secretary of the Air Force (Materiel) informed us that substantially all the subcontract price reductions have been passed on to the Government.

Index No. 7

B-118762, December 31, 1959

Examination of Department of the Army Contracts and Subcontracts with Birdsboro Armorcast, Inc., Birdsboro, Pennsylvania

Birdsboro, a subcontractor, was charged rental by the Navy for the use of a Government-owned plant in the production of tank hulls and turrets under Army Ordnance Corps subcontracts. The subcontractor and the prime contractor were allowed profits on the rental charges paid to the Navy by the subcontractor for the use of the Government-owned plant which increased by about \$184,600 the cost to the Government under the Army prime contracts. We recommended to the Secretary of Defense that consideration be given to issuing specific policy guidance to the military departments to the effect that prices to the Government under negotiated contracts or subcontracts generally will not include profit on rent paid for the use of Government-owned facilities.

Index No. 9

B-133251, December 31, 1959

Examination of Department of the Air Force Contracts with General Electric Company, Heavy Military Electronic Equipment Department, Syracuse, New York.

We found that the firm-fixed price negotiated for radar height finders under contract AF 30(635)-4377 was excessive by about \$329,000 because of the use in negotiations of estimated material costs in excess of amounts which had been quoted to GE for this contract by its suppliers of the material. We found also that, under price-redeterminable contracts AF30(635)-2583 and AF 30(635)-4130 for radar equipment, GE was permitted to hold excess provisional payments of \$1,400,000 for about 2 years.

After our examination, GE made voluntary refunds to the Air Force of \$320,000 for the lower price quotations received from suppliers before contract negotiations and of \$1,400,000 for the excess provisional payments that were being held pending price revision of the two other contracts.

Index No. 13

B-132910, January 29, 1960

Examination of Purchase Orders Issued by Douglas Aircraft Company, Inc., Santa Monica, California, under Department of the Army Subcontracts

Douglas accepted prices from its suppliers under fixed-price purchase orders which were unreasonably high in relation to costs experienced by the suppliers in producing the same items under earlier purchase orders. Since the Army prime contracts were subject to price redetermination and Douglas' subcontracts thereunder were almost all cost-plus-a-fixed-fee and price-redeterminable types, the prices negotiated by Douglas with its suppliers were ultimately borne by the Government. Under these types of contracts the contractor generally has little financial self-interest in close subcontract pricing.

Douglas informed us that it has embarked on a vigorous campaign to obtain more cost information and to make audits of questionable data in order to better provide itself with information in negotiating prices.

The Assistant Secretary of the Army (Logistics) advised us that steps have been taken to strengthen control and supervision over contractors' subcontracting practices. We believe, however, that additional action was necessary, particularly with regard to the negotiation of prices by subcontractors with their suppliers, and we recommended, therefore, that Army procurement officials be directed to exercise closer control over the effectiveness of subcontractors' contracting practices.

Index No. 14

B-132915, January 29, 1960

Examination of the Pricing of J-69 Turbojet Engines under Department of the Air Force Contracts with Continental Aviation and Engineering Corporation, Toledo, Ohio

Inadequate contract negotiation and administration by the Air Force under various price-redeterminable contracts resulted in additional cost to the Government of about \$412,000, of which \$236,000 has been refunded by the contractor. In addition, the Air Force, for extended period of time, allowed the contractor use of Government funds which have now been returned by the contractor.

The additional cost of \$412,000 was due to (1) the waiver of repricing rights and the negotiation of firm fixed prices for engines at a time when fair and reasonable prices could not be achieved, (2) the inclusion of excessive royalty allowances in the negotiated prices, and (3) the failure to adjust prices for engines shipped in Government-owned containers. The contractor's refunds of about \$236,000 applied to the excessive royalty allowances and the use of Government-owned containers.

We recommended to the Secretary of the Air Force that our finding with respect to the waiver of the Government's right to exercise price revision options be brought to the attention of Air Force contracting officials as an illustration of the need for critical review of contractors' cost proposals and the careful consideration of all factors, including any available price revision options, involved in making decisions to negotiate firm fixed prices.

Index No. 15

B-133263, January 29, 1960

Review of the Use of Contractor-Furnished Drawings for Procurement Purposes,
Department of the Navy

This review was initiated at the request of the Chairman, Select Committee on Small Business, United States Senate.

Our review disclosed serious deficiencies in the control over and use of contractor-furnished drawings. Because of the many naval activities engaged in the control and use of such drawings and related technical data, our review was necessarily limited to selected Navy Bureaus and field installations. Based on our findings, we recommended that the Secretary of the Navy direct that a comprehensive study be made to determine the extent to which the policies and procedures of the various Bureaus and Offices of the Department can be improved to assure maximum use of contractor-furnished drawings to achieve economies through greater use of advertised procurement.

In addition to the failure to realize the maximum benefits normally afforded by competitive bidding, we found indications of misuse of the authority to procure by negotiation. The Aviation Supply Office cited the unavailability of adequate technical data as the justification for negotiation in approximately 70 percent of the procurement actions reviewed by us, although a determination of the availability and adequacy of data generally was not made. We believe that such unsupported citations represent a misuse of negotiation authority granted by the Armed Services Procurement Act (10 U.S.C. 2304).

Index No. 18

B-133267, January 29, 1960

Review of Administration of Tax Exemption Privileges under the Offshore
Procurement Program in Europe

Our review disclosed that the military services failed in many cases to exclude from prices of offshore procurement contracts taxes of foreign governments for which the United States was specifically exempt under bilateral agreements. Selected examinations were made subsequently by the internal audit organizations of the Army, Air Force, and Navy, some with our assistance, and, as a result, erroneous tax payments of about \$825,000 were recovered and claims were made against contractors for an additional \$1,013,000. In addition, about \$1 million which the military audit services estimated was erroneously paid was considered uncollectible primarily because of failure of contracting officers to document the negotiation files with respect to the specific taxes considered and the amounts thereof excluded from the contract prices. The preponderance of these recoveries and claims involved Army contractors.

We recommended to the Department of Defense that adequate and uniform procedures be developed requiring that the nature and specific amounts of taxes excluded from prices of offshore procurement contracts be made part of the contract negotiation files by contracting officers.

Index No. 19

B-118720, January 31, 1960

Examination of the Negotiation of Additional Fees for Contractor Financing
Expenses under Department of the Air Force Contracts AF 33 (600)-32944,
-34952, and -33168 with Northrop Corporation, Hawthorne, California

Under the policy established by Department of Defense Directive 7800.6, effective November 1, 1957, contractors were required to obtain private financing for a portion of their pre-delivery costs under certain cost-reimbursement contracts. Pursuant to this policy, the Air Force allowed Northrop fixed fees of about \$1,049,000 to cover the contractor's estimated cost of financing the required portion of predelivery costs to be incurred in the performance of three cost-plus-incentive-fee contracts. The cost to the Government was about \$473,000 higher than the estimated cost of direct financing by the Government, based on the average interest rate for short-term marketable public obligations outstanding at the time the fees were negotiated.

We recommended to the Department of Defense and to the Department of the Air Force that a review be made of allowances granted to contractors for financing expenses in the light of estimated costs of direct Government financing and that the Department of Defense Directive be amended to require contracting officials to justify additional cost to the Government in terms of the benefits to be gained by the Government.

Index No. 20

B-133164, February 15, 1960

Review of Treatment of Suppliers' Price Reductions Applicable to Negotiated Department of the Air Force Contracts by Fairchild Engine and Airplane Corporation, Fairchild Aircraft Division, Hagerstown, Maryland

The Government bore increased costs because prices proposed by Fairchild and accepted by the prime contractor, Boeing Airplane Company, Seattle, Washington, in subcontract price-redetermination negotiations for B-52 wing and fin assemblies were excessive. Fairchild's proposed prices included estimated prices for component parts which Fairchild either knew or, based on past experience, should have expected would be reduced by voluntary price reductions by the supplier. Fairchild received and did not pass on to the Government reductions of about \$1,300,000 in the estimated prices for these parts included in proposals for redetermination of subcontract prices. The amounts proposed for these parts were accepted by the prime contractor and were included in the cost proposals submitted to the Air Force for the prime contracts. The Government also incurred additional costs of \$50,100 because certain of the cash refunds were applied as a reduction of Fairchild's cost of performing a Government incentive-type prime contract and, as a result, a portion of the refunds was inappropriately retained by Fairchild as incentive profit.

Under the circumstances, the Government, rather than Fairchild, should have received the benefit of the cash refunds and purchase order price reductions which were made by the supplier. We recommended to the Secretary of the Air Force that action be taken to recover for the Government the full amount of the cash refunds and price reductions received by Fairchild under the B-52 program, but not passed on to the Government, including the portion retained by Fairchild as incentive profit. We recommended also to the Secretary of the Air Force that contracting personnel be required to assure themselves, to the extent practicable through examination of contractors' records and procedures, that prime contractors and subcontractors pass on to the Government appropriate credit for significant price reductions made by suppliers.

Index No. 23

B-133247, February 26, 1960

Examination of the Price Negotiated for Department of the Army Contract DA-23-204-TC-230 with Northwestern Aeronautical Company, St. Paul, Minnesota

Army contracting officials negotiated a firm fixed price for the overhaul and repair of aircraft engines although, at the time of negotiations, the materials and parts which would be required were not known and the costs to be incurred for these items could not be estimated with reasonable accuracy. Also, the contract was later amended to permit the contractor to use materials purchased from surplus sources, but the contract price was not reduced. The negotiation of a fixed price for materials and parts, when the amount of materials and parts required could not be accurately predicted, and subsequently modifying the contract permitting the use of lower cost material and parts without, at the same time, negotiating an appropriate reduction in the contract price, resulted in excess cost to the Government of about \$125,000.

Index No. 30

B-118755, March 31, 1960

Examination of Subcontracts Awarded by Western Electric Company, Incorporated, Winston-Salem, North Carolina, to Telecomputing Corporation, Whittaker Gyro Division, Van Nuys, California, under Department of the Army Contracts

Western Electric accepted prices proposed by Telecomputing in awarding fixed price subcontracts for gyroscopes for NIKE-AJAX missiles without obtaining information on recent cost experience or other evidence of the reasonableness of the proposed prices. Consequently, Western Electric was unaware that these prices were substantially in excess of costs experienced by Telecomputing in producing the same items under prior subcontracts. Since the contracts with Western Electric were subject to price redetermination, the prices established with the subcontractor were ultimately borne by the Government. Under these conditions contractors generally have little financial self-interest in close subcontract pricing. Surveillance by Army contracting officials would have disclosed Western Electric's failure to obtain cost data and price analyses for use in determining the reasonableness of the prices proposed by the subcontractor.

Index No. 31

B-133296, April 19, 1960

Examination of Allowances for Federal Excise Taxes Included in Spare Parts Prices under Department of the Army Contract DA-36-039-SC-36529 with Collins Radio Company, Cedar Rapids, Iowa

The contractor's proposals for redetermining prices of spare parts under the contract included Federal excise taxes estimated on all spare parts to be furnished even though there was substantial uncertainty in regard to the amount of excise taxes which Collins would have to pay. Collins did not disclose this uncertainty to the Army nor inform agency officials that, at the time of the price redetermination, the excise tax was being paid on only certain of the spare parts delivered. Army officials did not obtain this information and, consequently, in establishing the redetermined prices under contract-36529, the Army allowed an amount for excise taxes which was excessive by about \$620,000.

We brought our findings to the attention of the Army and the contractor, and price reductions of about \$685,000 were negotiated for contract-36529 and six other contracts.

Index No. 33

B-118695, April 27, 1960

Examination of Procurement of Mobile Air-Conditioning Carts for Ground Support of B-58 Airplanes under Department of the Air Force Prime Contracts with Convair, a Division of General Dynamics Corporation, Fort Worth, Texas

This examination was made pursuant to the request of the Honorable John J. Sparkman, Chairman, Select Committee on Small Business, United States Senate.

Unnecessary cost to the Government of about \$2,660,500 was incurred because neither Convair nor the Air Force appropriately considered adapting existing equipment for ground support of the B-58 tactical airplane program. Although Convair, Fort Worth, had procured similar air-conditioning carts for ground support of the B-58 *test* program, Convair decided, under its authority as B-58 weapon system manager, to develop special air-conditioning carts of its own design for ground support of the B-58 *tactical* airplane program.

In addition, with Air Force approval, Convair, Fort Worth, assigned the development and fabrication of the special air-conditioning carts to Convair, San Diego, on a cost-as-incurred basis, without inviting competition from established outside manufacturers of similar equipment. This action was taken even though neither Fort Worth nor San Diego had previous experience in the development and fabrication of ground support air-conditioning equipment.

This report discloses also that, although in August 1959 the Air Force decided to replace the specially designed Convair air-conditioning carts with modified standard Air Force carts in ground support of the B-58 tactical airplanes, the Air Force did not authorize procurement of any modified standard carts until December 1959. Timely action by the Air Force in authorizing procurement of modified standard carts would have permitted termination of the procurement of the special Convair-designed carts and would have resulted in estimated savings to the Government of about \$400,000.

Index No. 35

B-118720, April 29, 1960

Examination of Additional Fees Paid by the Government for Contractor Financing Expenses Under Department of Defense Contracts

Under the policy established by Department of Defense Directive 7800.6, effective November 1, 1957, contractors were required to obtain private financing for a portion of their predelivery costs under certain cost-reimbursement contracts. Our review of Air Force records indicated that this policy was developed to alleviate the pressure of unexpectedly high cash requirements for Defense expenditures. Pursuant to this policy, under 26 contracts which we examined, the Department of the Air Force allowed contractors additional fixed fees of about \$17,600,000 to cover their estimated costs of financing the estimated amounts of costs to be withheld from reimbursement prior to deliveries. The cost to the Government of contractor financing under these 26 Air Force contracts was about \$8,700,000 higher than the estimated cost of direct financing by the Government. Although we were unable to obtain an estimate of the total amount of additional fees for contractor financing which have been negotiated under Department of the Navy and Department of the Army contracts, the records indicate that applica-

tion of this policy to such contracts resulted in increased costs without any significant benefit to the Government.

Index No. 38

B-133307, May 10, 1960

Examination of the Pricing of Fuel Booster Pump Repair Kits under Department of the Air Force Negotiated Contract AF 01(601)-20268 with Thompson Ramo Wooldridge, Inc., Cleveland, Ohio

The price of \$2,103,685 paid for fuel booster pump repair kits under the contract was excessive by about \$565,600 because 272,710 new-type fillister head screws were included in the price of the kits at a standard cost of \$1 each, although, prior to completion of negotiations for the pricing of the repair kits, the contractor had purchased about one half of the screws required for this contract at \$0.055 each. Further, the contractor had previously purchased similar screws at about 1 cent each. Subsequently, Thompson purchased the remaining screws for this contract at the same price of \$0.055 each. Although a variance factor was negotiated to provide for the adjustment of standard costs, this factor contained no provision to reduce the unreasonably high standard cost established for these fillister head screws.

Index No. 43

B-133300, June 10, 1960

Examination of the Pricing of Purchase Orders for Aircraft Fuel Controls Issued to Holley Carburetor Company, Warren, Michigan by Pratt & Whitney Aircraft Division of United Aircraft Corporation East Hartford, Connecticut, under Department of the Navy Contracts

Although the cost experience was available in January 1956 and thereafter, Pratt & Whitney did not require Holley to submit cost data for use in considering Holley's proposed prices for R-58, A-7012 fuel controls. As a result, Pratt & Whitney did not have sufficient information to evaluate the prices of 377 fuel controls totaling almost \$1,400,000. In the absence of such information and since competition was limited, Pratt & Whitney had no assurance as to the reasonableness of the purchase order prices. Consideration of Holley's latest available cost information, including the lower price being charged the Navy for R-58, A-7012 fuel controls under a prime contract, would have furnished a sound basis for negotiating lower prices. Since the prime contracts under which the purchase orders were issued are incentive-type contracts, unnecessary costs resulting from weaknesses in subcontract pricing serve to increase the price to the Government.

Index No. 44

B-133303, June 10, 1960

Examination of the Pricing of Master Indicators of the N-1 Compass under Department of the Air Force Contract AF 33(600)-28999 with Kearfott Company, Inc., Little Falls, New Jersey

In submitting cost data for use in negotiating prices of master indicators, Kearfott overstated the average unit costs of production it had experienced for the same indicators under an existing Air Force contract. This overstatement, which resulted from a faulty method of computing unit costs, was not disclosed by the Air Force review and, consequently, the prices of \$3,953,800 were excessive by about \$498,700.

Index No. 45

B-133321, June 24, 1960

Examination of the Pricing of P-2 Aircraft Cameras under Department of the Air Force Subcontracts Negotiated by North American Aviation, Inc., Los Angeles, California, with J. A. Maurer, Inc., Long Island City, New York

Subcontract prices of \$1,820 a unit, proposed by Maurer for P-2 cameras and accepted by the Air Force prime contractor, North American, were excessively high in relation to Maurer's prior experienced cost of producing P-2 cameras and exceeded by \$706 a unit the price the Air Force had negotiated with Maurer for identical cameras. The subcontract prices, together with other costs and profit added by North American, resulted in a total cost of \$521,000 for P-2 cameras under Air Force prime contracts and appear to have been excessive by about \$188,000.

Index No. 48

B-133307, July 29, 1960

Examination of the Prices Paid for Spare Parts under Department of the Air Force Contracts AF 01(601)-20268 and AF 34(601)-4833 with Thompson Ramo Wooldridge, Inc., Cleveland, Ohio

Spare parts prices, billed by Thompson and paid by the Air Force, included excessive charges for packaging and excessive amounts for certain spare parts. The overcharges, which totaled \$56,326, occurred even though the billings were subject to Air Force review. After we brought our findings to the attention of the contractor, Thompson refunded \$51,120 to the Air Force and corrected an error in the packaging charges for parts to be delivered, thus saving the Government an additional \$5,206.

Index No. 52

B-133329, September 29, 1960

Examination of Rental Payments Negotiated for the Commercial Use of Government-Owned Facilities Furnished Under Department of the Air Force Contract AF 33(038)-25718 with Avco Corporation, Lycoming Division, Stratford, Connecticut

In negotiating rent for use of Government facilities on commercial work, Avco proposed and Air Force contracting officials accepted a rental rate lower than the rate established in the contract for such use.

After our examination, the Air Force made a detailed review of the rental computations and reopened negotiations with the contractor. As a result of these negotiations, the Air Force collected additional rents amounting to \$216,800 on the basis of rental rates provided in the contract.

Index No. 53

B-133042, October 6, 1960

Examination of the Pricing of Subcontracts Issued to Reaction Motors Division, Thiokol Chemical Corporation, Denville, New Jersey, by Convair, a Division of General Dynamics Corporation, San Diego, California, under Department of the Air Force Prime Contract AF 04(645)-4

Subcontract prices of \$511,400, proposed by Reaction Motors to Convair for booster valves for the ATLAS missile, were excessive by \$103,500 because the prices included substantial provisions for unwarranted contingencies and costs of duplicate parts. Convair accepted, and the Air Force approved, the subcontract prices proposed by Reaction Motors without making a critical review of the estimated costs of producing the valves.

After completion of our examination, Reaction Motors refunded \$87,800 to Convair under these subcontracts, and \$47,200 under other subcontracts which we did not examine, and Convair passed these refunds on to the Government.

Index No. 54

B-132995, October 10, 1960

Examination of the Target Price Negotiated for Sidewinder Missile Guidance and Control Units under Department of the Navy Fixed-Price Incentive Contract with Philco Corporation, Philadelphia, Pennsylvania

The target price negotiated for the contract was excessive by \$589,600 because the cost of materials for channel ring and wing assemblies, plus related general and administrative expense and profit, was included in the target price even though the Navy and the contractor previously had agreed that these assemblies were not to be furnished under the contract. Navy contracting officials did not perform a sufficient review of the contractor's proposal and relied on Philco's statements that the cost of these items had been excluded. Consequently, the cost of items not required in performing the contract was included in the target price. Under the incentive provisions of the contract, this resulted in unnecessary cost to the Government of \$218,200.

Index No. 57

B-132936, November 30, 1960

Examination of the Pricing of F-101 Airplane Wings Purchased from the Martin Company, Baltimore, Maryland, by McDonnell Aircraft Corporation, St. Louis, Missouri, under Department of the Air Force Negotiated Contract AF 33(600)-29841

In its target price proposals for a fixed-price incentive subcontract, the subcontractor, Martin, included estimated costs for wing parts to be purchased from the prime contractor, McDonnell, which were excessive in relation to current costs information known at the time by both parties. These excessive cost estimates were included by McDonnell in its target price proposals for F-101 airplanes and were accepted by the Air Force. Thereafter, upon request by McDonnell, Martin certified that it had used current, complete, and correct cost information in its proposal, although our examination showed that lower cost information which was available to and known by Martin had not been used in its proposals.

We brought this matter to the attention of McDonnell and Martin and they agreed to reduce the target prices by the amounts of our findings.

Index No. 61

B-133341, January 5, 1961

Examination of the Prices Negotiated for J-71-A-11 Aircraft Engines under Department of the Air Force Contract AF 33 (600)-23143 with Allison Division, General Motors Corporation, Indianapolis, Indiana

The price of \$58,985,520 to the Government for J-71-A-11 aircraft engines delivered during 1955 included estimated costs which were excessive by \$1,480,000. This resulted from the inclusion in the negotiated price of (1) estimated costs for minor parts and labor which were excessive in the light of cost experience available at the time of negotiations and (2) increased estimated costs for major components based on a plan for buying a substantial portion of major components at a higher cost than that of in-plant production, without providing for the negotiation of a price adjustment if the make-or-buy plan were changed. In performing the contract, the contractor at its own discretion deviated from the plan and incurred substantially lower costs.

Index No. 62

B-133346, January 10, 1961

Examination of Procurement of 5,000-Gallon Capacity Semitrailers by Department of the Army from Fruehauf Trailer Company, Detroit, Michigan

Because the Army Ordnance Corps, Ordnance Tank-Automotive Command, did not adequately control the delivery, review, and correction of the drawings and engineering data obtained from Fruehauf under a development contract for semitrailers, the drawings and engineering data were not suitable for use in time for follow-on procurement of 509 vehicles. As a result, Fruehauf was considered the sole source of these semitrailers and received a negotiated fixed-price contract totaling \$4,506,595. Had suitable drawings been available for this procurement and had formal advertising procedures been used, it seems reasonable, on the basis of the price subsequently obtained under formal advertising procedures and information furnished by the successful bidder, that the cost to the Government would have been reduced by about \$875,000.

Index No. 63

B-132905, January 24, 1961

Examination of the Prices Paid for Certain Jet Engine Components Purchased from Bendix Aviation Corporation, South Bend, Indiana, by General Electric Company, Aircraft Gas Turbine Division, Cincinnati, Ohio, under Department of the Air Force Contracts

General Electric accepted Bendix's price proposals and awarded firm fixed-price subcontracts totaling \$1,602,110 for J-79 engine components although the method of production to be used by Bendix was uncertain and prior experience showed that there was a wide difference in cost depending upon the method of production used. Under these circumstances, it would seem reasonable to have used subcontracts providing for price revision when the method of production was known and costs could be estimated with reasonable accuracy.

We brought our findings to the attention of officials at General Electric who referred the matter to Bendix. As a result, Bendix refunded \$530,839 to General Electric and the latter issued a credit to the Air Force for \$615,900 which included General Electric's applicable overhead expense and profit.

Index No. 66

B-133158, January 27, 1961

Examination of Prices Negotiated for Coordinate Data Transmitting Sets under Department of the Air Force Contracts AF 30 (635)-9324 and AF 30 (635)-11490 with Burroughs Corporation, Detroit, Michigan

Burroughs' proposal for the target price under contract -9324 included estimated costs of material, labor, and applicable manufacturing overhead and general and administrative expenses which were excessive by \$3,850,339 in relation to cost information available at the time of the target cost proposal. In negotiations, the Air Force reduced the cost estimates for these elements by \$2,603,552. Therefore, the target costs accepted included excessive costs of \$1,246,787. Burroughs' target cost proposal for contract -11490 included excessive material costs of \$232,000 which were accepted by the Air Force without substantial change. If not adjusted, these excessive estimates would have resulted in increased cost to the Government of \$385,796 under the two contracts.

After we brought our findings to the attention of Burroughs and the Air Force, they agreed on price reductions which will result in savings to the Government of \$285,200.

Index No. 71

B-132915, February 13, 1961

Examination of the Pricing of Spare Parts for J-69 Turbojet Engines under Department of the Air Force Negotiated Contracts with Continental Aviation & Engineering Corporation, Toledo, Ohio

The prices of spare parts, totaling \$9,763,591, included certain pricing factors which were unreasonably high because the latest available costs were not adequately considered (1) in price negotiations and (2) for exercising available options to effect repricing during the performance of the contracts. These deficiencies resulted in increased prices to the Government of about \$579,400 for the period ended September 30, 1958.

We brought these findings to the attention of the Air Force and Continental, and as a result price reductions of about \$884,400 were negotiated. These price reductions included the adjustment of prices for certain spare parts not included in our examination.

Index No. 73

B-133352, February 15, 1961

Examination of the Target Price of Department of the Air Force Contract AF 04 (647)-287 with North American Aviation, Inc., Rocketdyne Division, Canoga, Park, California

The firm target price proposed by North American included estimated costs for material and subcontracted items which were about \$294,800 in excess of costs which the contractor could reasonably expect to incur. Since the amounts proposed by North American for material and subcontracted items were accepted by the Air Force with only a minor change, target costs contained these excessive estimates and, under the incentive pricing provisions of the contract, the Government would have incurred additional costs of about \$103,200.

We brought this matter to the attention of the contractor and the Air Force and the contractor made an appropriate adjustment at the time of negotiation of the final contract price.

Index No. 79

B-125071, April 14, 1961

Examination of the Pricing of Falcon Missiles under Department of the Air Force Contracts with Hughes Aircraft Company, Culver City, California

Contract prices were established without adequate evaluation, either by Hughes or by Air Force contracting officials, of all significant items of estimated cost included in the contractor's proposals. Appropriate evaluation of information available at the time the prices were established would have disclosed that certain of these estimated costs were higher than the costs which Hughes should have expected to incur.

As a result of our examination, Hughes took action to obtain and pass on to the Government lower prices under certain subcontracts included in our review and, in addition, reexamined subcontract prices under a more recent contract not included in our review and obtained further reductions for the Government. These actions, together with adjustments for other cost overestimates disclosed by our review, resulted in savings to the Government of \$636,500.

Index No. 83

B-133369, May 29, 1961

Review of Department of the Air Force Negotiated Contract AF 33 (600)—31283 to the Magnavox Company, Fort Wayne, Indiana, for ARC-34 Communication Equipment.

The contract was awarded to Magnavox on the basis that its price was the lowest of the 27 price proposals received. However, the Air Force had no assurance that the Magnavox price was, in fact, the most favorable to the Government because it did not require the various companies submitting competitive proposals to specify the estimated total amount of preproduction (start-up) costs they planned to charge the Government under the initial contract and follow-on procurements. Magnavox included in its proposed price only \$200,000 of the \$860,000 which the company had estimated it would incur in starting up a new source of production. The remaining \$660,000 excluded from the Magnavox competitive proposal was later included by the company in the pricing of follow-on procurements. Since the costs of starting up a new source for production of a complex item are usually substantial, it seems that the Air Force should have obtained and considered this information before deciding which source would result in the most economical procurement to the Government.

Index No. 86

B-133328, June 5, 1961

Examination of the Leasing of Government-Owned Aircraft Test Engines by the Department of the Air Force to General Electric Company, Cincinnati, Ohio

The Air Force leased five Government-owned test engines and related parts to General Electric for use in the contractor's commercial turbofan engine development program at a rental which was insignificant in comparison with the value of the engines to the contractor. Under the lease, the Government received \$24,000, plus certain reports. General Electric acknowledged, prior to execution of the lease, that its costs would have increased by nearly \$1 million if the engines had not been made available. The engines had been manufactured by General Electric at a cost to the Government of about \$2.4 million during a period in which the Air Force had furnished direct financial support for the contractor's development of a turbofan engine. No further direct financial support was provided, however, after the Air Force selected a turbofan engine developed by another contractor.

General Electric informed us that it believed that the lease was fair to both the Government and the contractor in view of the availability to the Government of the General Electric turbofan engine for backup or replacement in military programs and the data supplied at no cost to the Government. The Assistant Secretary of the Air Force (Materiel) informed us that he had approved the lease because he believed that the General Electric turbofan engine development was beneficial to the military services and the entire nation and that these benefits, in addition to the monetary payment received by the Air Force, constituted more than adequate consideration for the use of the engines.

Index No. 87

B-133371, June 7, 1961

Examination of the Air-Travel Policies of Selected Defense Contractors with Respect to Savings Available to the Government through Increased Use of Less Costly than First-Class Accommodations

A revised air-travel policy, urging persons in official travel status for the Government to use less costly accommodations than those accommodations designated as first-class, was adopted on June 1, 1960, following a study conducted by the Bureau of the Budget at the request of the Senate Committee on Appropriations. The Department of Defense did not advise Government contractors to adopt a similar policy for travel by their employees. We found that some contractors had voluntarily adopted policies encouraging their employees to use less costly accommodations; other contractors had policies which neither required nor suggested use of less costly accommodations, and the employees of certain of these contractors ordinarily used first-class accommodations. However, all the contractors named in this report adopted, or were considering adoption of, policies encouraging the use of less costly than first-class accommodations.

The extent of the savings possible through use of the less costly accommodations is indicated by the combined savings of more than \$1 million experienced in 1960 by only two contractors. Since more than 80 percent of defense contracts are

awarded by negotiation, under which prices established are based largely on actual or estimated costs, contractors' savings in travel costs in performing Government contracts should result in more economical defense procurement.

The Department of Defense advised us that it agreed that this was an area of potential savings to the Government and that instructions had been issued to the military departments requesting that contracting officers and their representatives encourage defense contractors to use air-coach accommodations.

Index No. 88

B-125027, June 20, 1961

Examination of the Pricing of Certain Components of Coporal Missiles under Department of the Army Negotiated Fixed-Price Subcontracts Awarded by Gilfillen Bros., Inc., Los Angeles, California, to Motorola, Inc., Western Military Electronics Center, Phoenix, Arizona

Gilfillen purchased from Motorola, the sole supplier, for \$1,456,685, certain components without obtaining information on actual or estimated costs or other evidence to support the reasonableness of the prices. Included in the price, was a profit of about \$537,000 or 58 percent of cost. After we brought this matter to the attention of Army officials, voluntary refunds were obtained amounting to only \$150,000.

Index No. 90

B-133342, June 29, 1961

Review of Progress Payments Made on Selected Ship Construction Contracts Awarded and Administered by the Department of the Navy

The Navy made progress payments totaling more than \$3.8 million in excess of amounts provided by the contracts thus permitting the contractors interest-free use of Government funds for extended periods of time. The Navy recovered the excess amounts and, as a result of our bringing this matter to its attention, collected \$93,000 from two contractors for their use of the funds. The Navy advised us of procedures which, if implemented effectively, should provide reasonable assurance that progress payments are in accordance with the contract terms.

Index No. 92

B-133374, June 30, 1961

Examination of the Pricing of AN/ARC-21 Receiver-Transmitters under Department of the Air Force Negotiated Fixed-Price Contract AF 33(600)-35867 With Radio Corporation of America, Defense Electronic Products, Camden, New Jersey

The negotiated price included an estimate of cost of \$822 a unit for a major component even though the contractor had received, prior to the time of negotiations, three lower price quotations from potential suppliers ranging from \$525 to \$604 a unit, and later awarded a subcontract for the components at \$525 a unit.

We found no evidence that the lower price quotations were made known to the Air Force negotiators. Had the lowest of these quotations been considered in establishing the price of this contract, the cost to the Government after adjustment for the contractor's related overhead and profit would have been reduced about \$173,000.

Index No. 95

B-133342, July 31, 1961

Review of Private Shipbuilders' Rent-Free Use of Department of the Navy Facilities in the Construction of Commercial Ships

The New York Shipbuilding Corporation, Camden, New Jersey, and Bethlehem Steel Company, San Francisco, California, were using Government-owned facilities in commercial ship construction work without payment of rent. From available information, we estimated the fair rental value of such usage at \$1,400,000 for the 6-year period covered by our review, 1954-1959. The use of these facilities in commercial work without payment of rent not only resulted in the failure of the Government to obtain a fair return on its investment in the facilities but, in addition, provided the shipbuilders with an advantage over competitors who operate their shipyards with privately-owned facilities or pay rent for the use of Government-owned facilities.

Steps were taken by the Department of the Navy to eliminate the competitive advantage afforded to these shipbuilders and to sell the facilities in accordance with prescribed disposal procedures. However, we found no indication that the Navy was taking action to obtain rental from the shipbuilders for prior use of the

facilities. Therefore, we recommended that the Navy endeavor to collect rental from the shipbuilder for such usage.

Index No. 99

B-133396, September 18, 1961

Review of Noncompetitive Procurement of Aeronautical Replacement Spare Parts within the Department of Defense

Notwithstanding the provisions of the Armed Services Procurement Act, the stated policy of the Department of Defense, and numerous statements by Department of Defense officials regarding their efforts to get the maximum amount of competition, in actual practice the military services have continued to buy the majority of aeronautical replacement spare parts from the original manufacturers of military equipment without real attempts to obtain competition for the parts. The Department of Defense has estimated that its annual expenditure for the reprocurement of these parts is \$1.2 billion.

Our review of the military services' use of noncompetitive contracts in their procurement of replacement spare parts included an examination of the circumstances which existed in the expenditure of more than \$106 million for 2,770 specific parts. Of this number, 1,675 parts, with a total price of more than \$66 million, were completely manufactured by subcontractors to the prime contractors who were awarded the Government contracts. The prime contractors had more than one subcontractor source of supply for 834 of the 1,675 replacement spare parts, and we believe it is reasonable to conclude that in these instances competitive sources of supply were also available to the procuring military service. The other 1,095 parts, with a total price of more than \$39 million, were manufactured partially or completely by the prime contractor. Many of these parts are items for which the services had or should have had complete technical data; the Government had or should have had the unrestricted right to use this data for any Government purpose, including competitive procurement; and the types of items involved were suitable for competitive procurement.

Index No. 101

B-133399, September 29, 1961

Inclusion of Excessive Premium Pay Costs and Computational Errors in the Price Negotiated by the Department of the Navy for Fixed-Price Contract NObs 3647 Awarded to New York Shipbuilding Corporation, Camden, New Jersey

The price negotiated for the construction of four destroyer escorts included computational errors and an allowance for premium pay that was more than three times the rate of premium pay previously experienced by the contractor. The contractor included this excessive allowance for premium pay even though it had advised the Navy that the rate was substantially in accordance with its prior experience. The Navy did not review the detailed support for the contractor's proposal and was not aware that the price was proposed that included these excessive costs. The Navy would have been in a sound position to negotiate a price about \$417,000 less than that accepted in negotiations had it been aware of the computational errors and the excessive allowance for premium pay.

We referred copies of this report to appropriate Government agencies with the recommendation that action be taken to obtain proper recovery from the contractor.

Index No. 106

B-132936, October 23, 1961

Examination of the Pricing of F-101 Airplane Wings under a Fixed-Price Incentive Subcontract Negotiated by McDonnell Aircraft Corporation, St. Louis, Missouri, with the Martin Company, Baltimore, Maryland, under the Department of the Air Force Prime Contract AF 33(600)-23393

The incentive target price negotiated by McDonnell with its subcontractor, Martin, included estimated costs for component parts which were \$318,600 higher than amounts quoted to Martin before the negotiations. According to negotiation records, McDonnell accepted Martin's estimates as proposed even though McDonnell was one of the suppliers involved and, 1 month before negotiations began, had quoted lower prices to Martin for use in estimating the costs of this subcontract. As a result, Martin received increased profits under the incentive provisions of its subcontract based on overestimated target cost rather than on cost reductions effected during contract performance.

After our examination, the subcontract price was adjusted and both Martin and McDonnell made refunds resulting in savings to the Government totaling \$92,400.

Index No. 111

B-146705, December 29, 1961

Examination of the Estimated Costs for Subcontracted Assemblies Included in the Incentive Target Price Negotiated for B-52G Airplanes under Department of the Air Force Contract AF 33(600)-34670 with the Boeing Company, Wichita Division, Wichita, Kansas

Even though Boeing complied with the new Air Force regulation requiring certification that the cost data used in price negotiations was complete and current, Boeing and the Air Force negotiated an incentive target price which included duplicate and overestimated costs totaling \$1,287,000.

In its target price proposal, Boeing included \$1,175,300 for increases in subcontract prices due to certain engineering changes, whereas the subcontract prices in Boeing's proposal had already been increased for the same engineering changes. In addition, Boeing included in its proposal a subcontract price estimate for airplane assemblies which was \$111,700 higher than the maximum price previously established for these items. Since Air Force review did not disclose these overestimates, a target price was negotiated which, under the incentive terms of the contract, would have increased Boeing's profit by \$372,000.

At our suggestion, the Air Force made a detailed review of allowances included in the incentive target price of a preceding contract for B-52 airplanes, and similar discrepancies were found. Boeing and the Air Force subsequently negotiated adjustments under the two incentive-type contracts which will reduce the final price by \$482,000.

Index No. 112

B-146706, December 29, 1961

Examination of the Prices Negotiated for Certain Electron Tubes under Department of the Navy Contracts with Raytheon Company, Waltham, Massachusetts

The Government did not obtain price reductions under two contracts because of incorrect cost information furnished by Raytheon. As provided in these contracts, the prices for electron tubes were subject to reduction based on the cost of producing similar tubes under a prior contract. In submitting to the Navy a certified statement of its cost for the prior contract, Raytheon included as direct costs certain overhead expenses which had previously been charged to other contracts, and this additional cost precluded an adjustment of the prices for follow-on contracts.

After our examination, the Navy obtained refunds from Raytheon under these three contracts, totaling \$144,500.

Index No. 116

B-118695, January 29, 1962

Examination of Procurement of Special Tooling for the B-58 Airplane Program under Department of the Air Force Negotiated Cost-Plus-Incentive-Fee Contracts with Convair, a Division of General Dynamics Corporation, Fort Worth, Texas

The Air Force contracting officials allowed Convair to acquire, at Government expense, hangar-type buildings and certain test equipment as special tooling under supply contracts for B-58 airplanes and to receive additional fees of \$382,200 on the estimated cost of these items, even though ample information was available to show that the buildings and equipment were not special to the B-58 but could be readily adapted for use with almost any military or commercial aircraft in service. Convair and Air Force contracting officials should have recognized therefore, that the items were not special tooling but were industrial facilities which procurement regulations specify should be acquired under a no-fee facilities contract. Procurement of these facilities, estimated to cost \$6,310,000, under fee-bearing B-58 supply contracts, rather than under an existing no-fee facilities contract, resulted in (1) bypassing of the higher reviews and approvals prescribed for industrial facilities by procurement instructions and (2) additional costs to the Government in the form of unwarranted fee allowances to Convair, of \$382,200.

The Office of the Secretary of the Air Force informed us that, subsequent to these procurement actions, the Air Force amended its procurement instructions and issued guidelines to assist contractors and agency personnel to achieve a more

uniform and accurate classification of property acquired by contractors at Government expense.

Index No. 117

B-133369, January 31, 1962

Examination of the Pricing of Selected Spare Parts for ARC-34 Communication Equipment under Department of the Air Force Fixed-Price Contracts Negotiated with the Magnavox Company, Fort Wayne, Indiana

The price Magnavox established with the Air Force for a \$3-million procurement of spare parts was excessive by more than \$1 million. The spare part prices were established after Magnavox furnished proposals containing a certification that its pricing information was accurate to the best of the company's knowledge and belief.

Magnavox developed its price proposals on the basis that it would buy the spare parts from a supplier and estimated that the prices would be the same as those accepted by the supplier for a smaller order placed the previous year. However, the supplier had since reduced those prices and had twice stated to Magnavox that it would accept even lower prices for new orders. After receiving the supplier's reduced prices, Magnavox made studies which indicated that substantially lower costs would be incurred if the spare parts were made in its own plant. At the time of its proposals, Magnavox had established and had already started an in-plant manufacturing program, including the authorization of expenditures for manufacturing tools, test equipment, and materials sufficient for full-scale production and the placing of orders for these items. We found no evidence that Magnavox had disclosed its in-plant manufacturing program to the Air Force although the contract required Magnavox to give advance notice of, and the basis for, withdrawal of the work from the supplier. The contractor's failure to use the supplier's most recent prices accounted for \$274,100 of the overpricing. The remaining overpricing of \$780,900 was due to the contractor's use of purchase prices rather than the estimated costs of manufacturing the items in-plant.

Air Force review did not disclose the actions being taken by Magnavox to have the work done in-plant, and the Air Force accepted the proposed prices without change. In commenting on our findings, the Air Force advised us that it had deferred action on this case pending consideration of the matter by another Government agency.

We believe that the Magnavox price proposals were not accurate and did not provide a suitable basis for negotiating fair and reasonable prices. Therefore, we referred copies of this report to appropriate Government agencies with a recommendation that action be taken to obtain recovery from the contractor.

Index No. 119

B-146717 January 31, 1962

Examination of the Pricing of Certain Missile Tooling under Department of the Air Force Negotiated Contract AF 33(600)-36319 with the Boeing Company, Seattle, Washington

The possibility of excess costs to the Government of \$221,000 could not be satisfactorily evaluated because the Air Force records of negotiation were not clear as to the elements of cost negotiated in the initial contract estimate. As a result, when the need for certain tooling was eliminated, it was not possible to determine, for purposes of adjusting the initial estimate, whether the amount for the tooling was included in the initial estimate at \$3.97 million or at \$1.79 million. The difference of about \$2.2 million will result in additional costs of about \$221,000 to the Government in the form of profit to the contractor.

Index No. 121

B-133393 February 14, 1962

Selective Examination of Payments Made for Construction of Facilities and Installation of Equipment under Department of the Air Force Contracts Negotiated with Air Products, Incorporated, Allentown, Pennsylvania

Air Products overcharged the Government \$104,647 under cost-reimbursement portions of the contracts. The overcharges included costs applicable to fixed-price portions of the contracts, costs for items either not purchased or not used, an invoice billed twice, and other amounts which were not properly for reimbursement. In addition, Air Products excluded certain credits which should have been applied as reductions in payments. Air Force auditors made a selective review of amounts submitted by Air Products under the cost-reimbursement portions of the contracts, but their review did not disclose the improper reimburse-

ments. After our examination, the contractor refunded these overpayments to the Government.

Index No. 124

B-146718, February 20, 1962

Report on Overcharges by the Shipbuilding Division of Bethlehem Steel Company, Quincy, Massachusetts, for Materials and Supplies Acquired for Use under Government Cost-Type Contracts

The Government was overcharged \$139,000 because the contractor failed to make adequate reductions for cash discounts in determining the costs of materials chargeable to the Government under cost-type contracts. Although Bethlehem's requests for reimbursement were reviewed by the Navy, the overcharges were not disclosed by that review and the amounts claimed were approved by the Navy and paid.

Both the Navy and the contractor concurred in our findings, and the contractor refunded the \$139,000 to the Government.

Index No. 130

B-146723, March 30, 1962

Examination of Income Received by Grumman Aircraft Engineering Corporation, Bethpage, New York, from Commercial Airlines for Use of Government-owned Facilities Furnished under Department of the Navy Facilities Contract NOa-5682

During the 6-year period ended December 31, 1960, Grumman retained \$154,000 it collected from commercial airlines for their use of Government-owned runways but the Government realized no rental income from Grumman for such use. Further, during the same period, the Government absorbed substantially all the cost of maintaining and operating the runways.

After our examination, Grumman agreed to give the Government credit for an appropriate amount of the fees it had received from the commercial airlines during this 6-year period by crediting its overhead costs. Grumman indicated that this credit will amount to about \$70,000 after allowance for State and Federal income taxes previously paid on the fees received. Grumman further agreed to credit all fees received from the airlines after January 1, 1961, to its overhead costs. Since overhead is almost entirely applicable to Government contracts, this action should result in the Government's receiving credit for an equitable portion of the fees received by Grumman.

Index No. 132

B-133042, April 11, 1962

Review of the Administration of Construction of Certain Launch Facilities for the Atlas and Titan Intercontinental Ballistic Missiles at Selected Air Force Bases

This report was issued prior to the completion of our review in order to furnish the Congress advance information on certain of our findings. After completion of our review, we submitted to the Congress, a report (B-133042, dated January 8, 1963, titled as above) which includes these findings.

Index No. 146

B-146710, May 31, 1962

Interest Charges Paid for the Construction of a Water Supply Line at Fort Belvoir, Virginia, Department of the Army

The Army financed construction of a 2-mile pipeline at Fort Belvoir on the installment basis. As a result, interest charges of \$65,010 on construction costs of \$216,700 were incurred. Since the Army is reimbursing the contractor for these costs on a monthly basis at a rate which will result in full payment in less than the 5-year period on which the interest charge was based, the Government is in effect paying interest at the rate of about 15 percent per annum for private financing of the construction project.

We recommended that steps be taken by the Department of Defense to preclude a recurrence of this type of expenditure and that the Secretary of the Army endeavor to obtain a voluntary adjustment of the excessive interest charges in this instance.

Index No. 151

B-132974, June 29, 1962

Examination of Royalty Charges by Hazeltine Electronics Division, Hazeltine Corporation, Little Neck, New York, under Department of Defense Contracts

The military services failed to collect royalty overcharges of \$176,000 due the Government from Hazeltine. The prices of Hazeltine's contracts with the military services included amounts for certain royalties which the company estimated it would have to pay. The contracts specifically provided, however, that Hazeltine would report the amount of royalties actually paid and would refund to the Government the unpaid amounts. Hazeltine, in many instances, did not report to the military services the amounts of royalties paid under the contracts, and, even where Hazeltine made the required reports, the military services took no action to collect the unpaid royalties. Further, we found no evidence that the military services had adequate controls for collecting amounts due the Government from contractors for unpaid royalties. As a result of our examination, Hazeltine agreed to refund all unpaid royalties.

This matter was brought to the attention of the Department of Defense (DOD) and we were informed that refunds under most of the contracts in question had already been received. DOD stated further that steps were being taken to prevent recurrence of this problem.

Index No. 155

B-146732, June 29, 1962

Review of the Administration of Contracts for Rental of Automatic Data Processing Equipment at Selected Military Installations within the Department of Defense

We identified overpayments of rental charges, amounting to about \$207,000, made by the military services to manufacturers of automatic data processing (ADP) equipment, during fiscal years 1960 and 1961, because the terms of ADP contracts awarded by the General Services Administration (GSA) were not properly administered. Since our review covered only 32 percent of the military organizations which lease ADP equipment under GSA contracts, we conclude that other overpayments may have been made in addition to the \$207,000 found in our review.

These overpayments were due primarily to the failure of personnel at the using installations to understand and properly administer the contract provisions relating to the exclusion of setup time, unemployed component equipment time, and official meal periods, in the computation of rental charges. At the time of our review, many of the installations had already revised their procedures to preclude additional overpayments of this kind; however, only a few had taken action to recover the amounts due.

The Assistant Secretary of Defense (Comptroller) informed us that action would be taken to preclude future overpayments of this nature and to identify and recover all overpayments which have been made.

Index No. 157

B-132998, July 20, 1962

Examination of Selected Aspects of the Pricing and Administration of Certain Department of the Navy Contracts Awarded to Douglas Aircraft Company, Inc., El Segundo, California

The Government was overcharged \$44,450 because (1) Douglas used higher rates for crating, estimating, and handling costs applicable to spare parts purchases than those to which the contractor and the Navy had agreed, (2) Douglas failed to obtain a price reduction from a subcontractor for the latter's rent-free use of Government-owned facilities on a Douglas subcontract, and (3) Douglas improperly allocated costs incurred in reprocessing used metal dies to a cost-plus-a-fixed-fee contract. Although Navy contracting officials reviewed the contractor's proposals at the time of negotiation and the Navy had a staff of auditors located at the contractor's plant, these overcharges were not detected.

Both the Navy and the contractor concurred in our findings and the contractor made adjustments totaling \$44,450 in the contract prices.

Index No. 158

B-146733, July 23, 1962

Examination into the Pricing of a Subcontract for Nuclear Components Awarded by the Plant Apparatus Department of Westinghouse Electric Corporation to Another Department of Westinghouse and Charged to the Navy under a Cost-Plus-A-Fixed-Fee Contract

The Plant Apparatus Department of Westinghouse, under the Navy prime contract, awarded a subcontract for 16 pumps and casings to a manufacturing department of Westinghouse at a price of \$3,500,000 without obtaining from the manufacturing department information as to prior cost experience or the manufacturing department's estimated cost of performance under the subcontract. Prior cost experience and cost estimates prepared by the manufacturing department before the subcontract award indicate that a price \$1,066,000 lower than that accepted would have covered costs and afforded a profit at the 10 percent rate that Westinghouse later represented to the Navy as being included in the price. Although the contractor had previously produced comparable items for the Government, the Navy approved the award on the basis of a comparison with prices previously paid rather than attempting to obtain cost estimates or prior cost experience. If the Navy had obtained this information before approving the subcontract award, it would have been in a sound position to obtain a price about \$1,066,000 lower than that paid for these items.

After being advised of our findings, the Navy issued a cost suspension notice under the prime contract. The Navy advised us that it was making an audit of the subcontract involved and had requested Westinghouse to conduct a review and make appropriate remedies.

Notwithstanding the Navy's action, Westinghouse has advised us that it disagrees with our conclusions and will oppose any Government efforts to obtain a price adjustment.

There is considerable question as to whether the subcontract between the two divisions is a valid contract, since the law requires two or more separate legal entities as contracting parties. However, in any case the cost-plus-a-fixed-fee contract between Westinghouse and the Navy placed great reliance upon Westinghouse and obligated it to exercise due care in the expenditure of funds to be reimbursed by the Government. In awarding this "subcontract" to a department of its own corporation, without effective competition and without considering available cost estimates and prior cost data, Westinghouse did not exercise the degree of care that was warranted by its contractual relationship with the Government. We believe that the Government is entitled to recover from Westinghouse on the basis of Westinghouse's failure to use due care in establishing the price for the work performed under the "subcontract" and charged to the Government under the cost-plus-a-fixed-fee prime contract.

Index No. 161

B-146737, July 31, 1962

Examination of the Pricing of Spare Engines for Fire-Crash Vehicles under Department of the Air Force Fixed-Price Prime Contracts with Continental Motors Corporation, Muskegon, Michigan

Although it was the sole-source supplier of spare engines for certain fire-crash vehicles, Continental refused to furnish Air Force contracting officials available cost data or other evidence to support the reasonableness of the prices it proposed for five fixed-price contracts. The prices proposed by Continental and accepted by the Air Force for three negotiated fixed-price contracts were identical with the price at which an earlier formally advertised procurement had been awarded to this contractor, and the price accepted for the fourth contract was only 0.76 percent lower. However, the circumstances under which the earlier procurement by advertising was made did not provide effective competition. Consequently, Air Force contracting officials had no knowledge as to whether the proposed prices which they accepted were reasonable. On the basis of computations which we made, using data taken from Continental's formal records and available to the contractor at the time its price proposals for the respective contracts were submitted to the Air Force, prices totaling about \$864,000 established for the five contracts were about \$356,500 or 70 percent higher than Continental's cost previously experienced in producing like engines. In the performance of these contracts, we estimated that Continental experienced total costs of about \$479,000 and profit of about 80 percent of cost.

After we brought our findings to the attention of the agency and the contractor, the Air Force was able to negotiate with Continental a voluntary refund of only \$110,000 as an adjustment of the prices of the contracts discussed in our report and one other contract not covered by our review. The fact that the Air Force has not yet been able to persuade Continental to make further price adjustments is evidence of the need for vigorous application by contracting officials of appropriate measures to assure that contract prices are fair and reasonable.

Index No. 163

B-132973, August 20, 1962

Examination of the Pricing of Repair Parts for Mk 118 and Mk 119 Computers under the Department of the Navy Fixed-Price Incentive Contract NOrd-17812 with Ford Instrument Company, Division of Sperry Rand Corporation, Long Island City, New York

The Navy and Ford Instrument negotiated firm target costs for computer repair parts as a basis for paying the contractor incentive profits for cost reductions made during performance of the contract, even though the types and quantities of parts to be furnished under the contract were unknown at the time of negotiation. Furthermore, it was impossible to accurately estimate production costs inasmuch as the prototypes of the computers for which the repair parts were needed had not yet been completed and the design data on the parts were not firm. As a result, firm target costs of approximately \$2,500,000 were negotiated for computer repair parts. These target costs were about \$1,398,000 in excess of the actual costs subsequently incurred by Ford Instrument. On costs of about \$1,102,000, Ford Instrument will receive profits of about \$907,000, or a profit rate of 82 percent of costs incurred under the provisions of the incentive contract. Of this profit, \$123,000 represents target profit of 11.1 percent of actual costs, and \$784,000 represents target profit of 11.1 percent and incentive profit of 45 percent of the difference between the negotiated target costs and the actual costs subsequently incurred for repair parts.

We recommended that the Navy make every effort to effect an appropriate adjustment in the contract before final prices for the computer repair parts are negotiated.

Index No. 170

B-118695, September 17, 1962

Examination of Pricing of Screwjack Assemblies for F-106 Airplanes under Department of the Air Force Negotiated Fixed-Price Subcontracts Awarded by Convair, a Division of General Dynamics Corporation, San Diego, California, to Lear, Incorporated, Grand Rapids, Michigan

Although Lear was the sole-source supplier of the assemblies, Convair generally accepted Lear's quoted prices without obtaining cost data or other pertinent information in support of the prices. Consequently, neither the prime contractor nor the Air Force had a sound basis for determining whether the prices quoted were reasonable. On the basis of computations which we made, using data taken from Lear's formal records and available to Lear at the time its price quotations were submitted to Convair, prices totaling about \$1,579,000 for negotiated fixed-price subcontracts awarded Lear for assemblies from August 1958 to April 1960 were about \$439,000 or 39 percent higher than costs previously experienced in producing like assemblies. In the performance of these subcontracts, we estimated that Lear experienced total costs of about \$1,038,000 and profit of about 52 percent of cost.

The Office of the Assistant Secretary of the Air Force advised us that neither the prime contractor nor the subcontractor had established the reasonableness of the prices of the subcontracts covered by our report, or any other considerations which would render such prices reasonable because of equitable pricing factors not reflected in the report. The Air Force requested Convair to obtain an appropriate adjustment from Lear, and Convair made a demand on Lear, but Lear has not indicated whether or not a refund will be made.

We recommended that the Secretary of the Air Force take aggressive action to obtain for the Government an equitable adjustment of the prices of Convair's subcontracts with Lear.

Index No. 171

B-146718, September 19, 1962

Overcharges by the Shipbuilding Division of Bethlehem Steel Company, Quincy, Massachusetts, for Overhead Costs Reimbursed by the Government under Cost-Type Contracts

Bethlehem charged Government cost-type prime contracts and subcontracts with overhead costs totaling \$1,030,000 during the calendar years 1957 through 1960 that were applicable to the contractor's commercial work and Government fixed-price contracts. The overcharges resulted from the contractor's allocating costs incurred in the ship construction and drafting departments, where about 35 percent of the work was for the Government under cost-type contracts, to the Design Department where about 85 percent of the work was under Government cost-type contracts. Although the Navy auditors reviewed the contractor's procedures and its claims for reimbursement of overhead costs charged to Government cost-type contracts, no exception was taken to these overcharges and the accounts claimed for these costs were approved and paid by the Navy.

After we called our findings to the attention of the Navy, the Navy withheld reimbursement of \$972,000, the difference of \$58,000 being the estimated amount applicable to a contract that was converted from cost type to fixed price subsequent to our review. According to the Navy, it considered the overcharges we reported for that contract in the negotiation of the fixed price for that contract. The Navy advised that it is conducting a special review of these overcharges as well as other aspects of overhead charges to cost-type contracts and will make further recoveries, if required, when final audit results are established.

Index No. 172

B-146717, September 24, 1962

Examination of the Pricing of Guidance Subsystems for the Bomarc Missile under Department of the Air Force Negotiated Contract AF 33(600)-36319 with the Boeing Company, Seattle, Washington

The Government will incur unnecessary costs of about \$101,300 in the form of unwarranted profits under the prime contract because (1) the subcontractor quoted prices to the prime contractor based on cost estimates that were higher than justified by its most recent cost experience, (2) the prime contractor, without adequately reviewing these prices, included them, plus allowances for direct charges and contingencies, in its proposed initial estimate of the prime contract cost, and (3) the Air Force accepted the proposed initial estimate without adequate review.

In commenting on our findings, the Air Force stated that the estimated repair warranty costs, which accounted for about one-third of the total overstatement of the subcontract price, appeared excessive but took the position that the remaining costs were justified. The Department stated further that it would reopen negotiations with the prime contractor to obtain an appropriate adjustment for the portion of costs its considered to be overstated. The prime contractor took the position that the initial prime contract estimate negotiated with the Government was proper and that no adjustment in the contract price was required for this particular procurement.

We recommended that the Department of the Air Force initiate further negotiations for an appropriate adjustment of the prime contract to recover the remaining unnecessary costs in the form of unwarranted profits received by the prime contractor on the procurement of these guidance subsystems.

Index No. 173

B-146751, September 25, 1952

Inadequate Control Over Certain Ship Construction Material at the Ingalls Shipbuilding Corporation, Pascagoula, Mississippi

Certain ship construction material costing about \$153,400, acquired under various Department of the Navy negotiated fixed-price ship construction contracts and which became excess to construction needs by reason of contract changes, was retained by the Ingalls Shipbuilding Corporation without appropriate reduction in the contract prices for the value of the material.

Both Ingalls and the Navy recognized the need for improving procedures and strengthening control over material which becomes excess to construction needs. The Navy stated that action has been taken to properly identify and segregate Government property located at Ingalls' plant; that Ingalls had agreed to repay

approximately \$38,000; and that, as additional facts are established concerning the proper accountability for Government property, appropriate action will be taken to obtain additional refunds from Ingalls.

Index No. 174

B-133304, September 26, 1962

Examination of Purchases of Certain Major Components for Redstone and Jupiter Missiles by Chrysler Corporation, Detroit, Michigan

Substantial savings, possibly as much as \$5.7 million, could have been realized if the Army had procured three major components for REDSTONE and JUPITER missiles directly from the manufacturers and furnished them to Chrysler as Government-furnished material. The indicated savings comprise fees to Chrysler of \$4.6 million shown by Army negotiation records as applicable to the three subcontracted components and \$1.1 million representing the estimated amount of Chrysler's corporate home office general and administrative expenses that applied to these components.

The Army successfully developed and produced REDSTONE and JUPITER missiles at the Redstone Arsenal, Huntsville, Alabama. The Army established the sources of supply for the components. This included furnishing drawings and funds for facilities and special tooling. The Army supplied components to Chrysler in the early stages of both programs. The Army performed detailed inspection of all components at the manufacturers' plants and final inspection based on proof testing as necessary and, on the basis of these inspections, accepted the components for the Government prior to shipment to Chrysler. Finally, the Army produced and successfully fired REDSTONE and JUPITER missiles equipped with the components before Chrysler had produced a missile under either program. We believe, therefore, that all the components could have been obtained by the Army directly from the manufacturers and supplied as Government-furnished equipment to Chrysler with little or no additional effort on the part of the Army.

Index No. 175

B-125050, October 4, 1962

Review of Extent to which Military Procurement Agencies and Prime Contractors have Obtained Certifications as to the Accuracy and Completeness of Cost Data Used in Negotiation of Contract Prices

This review was made as a result of the interest of the Subcommittee for Special Investigations, House Committee on Armed Services, in the effectiveness of new regulations adopted by the Department of Defense to improve the negotiation of contract prices.

The report shows that, even though procurement regulations were revised in October 1959 to require defense contractors and their subcontractors under non-competitive procurements to furnish certifications of pricing data, many procurements entered into in 1960 and 1961 were negotiated without obtaining such certifications. Our selective review at certain military procurement agencies and contractors' plants identified Army and Navy prime contracts totaling about \$253 million and subcontracts totaling about \$47 million involving all three military services, which were awarded without obtaining the required certifications. We found also that the Department of Defense contract clauses used in cost-type contracts at the time of our review omitted the requirement for certifications by subcontractors. As a consequence, the Government did not receive, in many instances, the assurance intended by the revised regulation that current, complete, and correct cost and pricing data had been considered in negotiating contract prices.

Subsequently, we worked with both the House and the Senate Armed Services Committees concerning proposed legislation on this subject. This legislation was passed by the Congress and signed into law on September 10, 1962 (Public Law 87-653). The law amends the Armed Services Procurement Act to require with certain exceptions that, where price competition is lacking under negotiated contracts and subcontracts, cost or pricing data be submitted in procurements over \$100,000 and be certified by the contractor and subcontractor as accurate, complete, and current. The law provides further that in these procurements the contract contain a clause permitting the Government to recover any significant increase in the price that resulted from the submission of inaccurate, incomplete, or noncurrent cost or pricing data.

Index No. 177

B-146717, October 15, 1962

Review of the Procurement of Mobile Inspection Equipment Vans for the Bomarc Missile Weapon System under Department of the Air Force Negotiated Contract AF 33(600)-36319 with the Boeing Company, Seattle, Washington

Costs to the Government were unnecessarily increased by \$214,900 because costs of four unneeded mobile inspection equipment vans were included in the initial estimated cost of the contract. It was known at the time of negotiations of the initial estimate that these vans might not have to be procured, and this was confirmed by a study made shortly after negotiations were completed. Further, two of the four vans were for a missile site covered by a prior contract. Although these vans were not procured and subsequently their estimated cost was eliminated from the revised cost estimate, no adjustment was made to reduce the contractor's applicable profit of \$214,900 until we brought the matter to the contractor's attention. Even then, the adjustment made covered only two of the four vans. Consequently, unless an additional adjustment is made, the Government will incur unnecessary costs of \$107,453 in the form of unwarranted profits to the prime contractor on the estimated cost of the two unneeded vans.

After we brought this matter to the attention of the Department of the Air Force, it conducted a review of the circumstances in this procurement and advised us that it would attempt to secure an appropriate contract adjustment. The prime contractor advised us that no further adjustment to the contract is justified for the vans that were not procured since it considered them as tooling and, since it had no obligation under the contract to procure or delivery any specific item of tooling, there could be no amendment to the contract with respect to specific items actually required in the performance of the work.

We recommended that the Secretary of Defense require that, to the extent practicable, large items of special tooling be specifically identified in the contract statement of work to be performed so that if requirements change appropriate adjustment of cost and profit can be made under the contract.

Index No. 178

B-132936, October 16, 1962

Examination of Pricing of F-101 Airplane Aft Fuselage Assemblies Purchased from Temco Aircraft Corporation, Dallas, Texas, by McDonnell Aircraft Corporation, St. Louis, Missouri, under Department of the Air Force Contracts

Costs to the Government for the assemblies will be increased by about \$1,571,100 because estimated costs included in the target prices for the subcontracts and prime contracts were excessive at the time the targets were negotiated. Unless the excessive target prices are adjusted, unearned profits of about \$1,200,200 will be realized by Temco and \$370,900 by McDonnell.

In negotiating firm target prices on subcontracts for the assemblies, Temco proposed and McDonnell accepted prices which were based on cost estimates that were excessive by approximately \$4,968,900 in relation to cost information available to Temco at the time. Subsequent to the subcontract negotiations, Temco certified that it had used current, complete, and correct cost and pricing information in its target cost proposals and that such information as was available to Temco had been furnished to the McDonnell buyers prior to the conclusion of target negotiations.

After we discussed our findings with Temco and McDonnell, the excessive target costs of \$4,968,900 were reduced by \$682,600 and Temco made refunds and price adjustments to McDonnell of about \$191,100 which the prime contractor has passed on, or agreed to pass on, to the Government. Unless further adjustment is made, the Government will incur increased costs in the form of unearned profits to McDonnell of about \$77,700 and unearned profits to Temco of about \$1,200,200.

In addition, in firm target negotiations for one of the prime contracts, McDonnell submitted and the Air Force accepted subcontract cost estimates that were excessive by about \$1,011,200 in relation to cost information available at, but not obtained from, Temco at the time the firm target price for the prime contract was negotiated. Unless the excessive target price of the prime contract is adjusted, the Government will incur additional increased costs and McDonnell will realize further unearned profits of about \$293,200.

After we brought this matter to the attention of the Department of Defense, the Office of the Assistant Secretary of the Air Force (Materiel) advised us that the Air Force had deferred action pending consideration of this case by another Government agency.

Index No. 180

B-146756, November 1, 1962

Examination into the Pricing of 14 Subcontracts for Components of Polaris Missiles Awarded to Systron-Donner Corporation under Navy Cost-Plus-A-Fixed-Fee Contracts with Lockheed Aircraft Corporation

Lockheed, buying for the Navy under cost-plus-a-fixed-fee contracts, awarded 14 subcontracts to Donner under which it purchased 415 Model 4720 Programmers on a noncompetitive basis for \$2,201,800. The prices negotiated for these programmers were about \$303,000 greater than necessary to cover the costs Donner could reasonably expect to incur and to provide Donner with profit at the negotiated rate of 10 percent of estimated costs. The award of the subcontracts at the prices agreed upon by Lockheed and Donner was approved by the Navy, and these prices were passed on to the Government under Lockheed's cost-plus-a-fixed-fee contract with the Navy. Had the Navy or Lockheed obtained Donner's most recent experienced costs or vendors' quotations before approving the subcontract awards, it would have been in a sound position to negotiate a reduction of about \$303,000 in the subcontract prices.

The Navy advised us that it is making a further review of the costs involved in these subcontracts and that, when this review is completed, steps will be taken to obtain a refund of any amount shown to be due. Donner has advised us that it erred in a few instances and that the Government is entitled to restitution in these instances, totaling about \$40,000; however, Donner does not agree with the majority of our findings and has made no offers of further price adjustment.

We referred copies of this report to the Departments of the Navy and Justice with the recommendation that the Navy, in cooperation with the Department of Justice, take all available and appropriate action to obtain proper recovery from the Systron-Donner Corporation.

Index No. 182

B-146718, November 29, 1962

Excessive Amounts of Overhead Costs Charged to Government Cost-Type Contracts by the Quincy Yard of the Bethlehem Steel Company, Quincy, Massachusetts

During the calendar years 1957 through 1960, Bethlehem charged Government cost-type contracts with about \$1,370,000 in overhead costs that were applicable to its commercial and Government fixed-price work and therefore were not properly reimbursable by the Government under the cost-type contracts. These overcharges occurred because Bethlehem did not charge the overhead costs incurred by each of its three major departments to the work performed in that department, but, instead, combined the overhead costs of all three departments and allocated the combined costs to its various projects in the same ratio as direct labor costs were charged to these projects. Since the proportion of the work performed by the departments having the lower amount of overhead costs per direct labor dollar was greater on Government cost-type contracts than on Bethlehem's commercial and Government fixed-price work, this method of charging overhead costs resulted in Government cost-type contracts being charged with \$1,370,000 more of such costs than were actually applicable to these contracts. About 70 percent of this overcharge should have been charged to Bethlehem's commercial work. The remaining 30 percent should have been charged to Government fixed-price contracts.

Bethlehem advised us that it was not in agreement with our findings and it did not propose to make any adjustment in its charges to these contracts. However, the Navy agreed with our findings and has undertaken an extensive review not only of the matters disclosed by this report, but of other areas of overhead as well. In the meantime, the Navy informed us that payments to Bethlehem under cost-plus-a-fixed-fee contracts are being withheld to the extent necessary to protect the Government's interest.

Index No. 184

B-132974, November 30, 1962

Review of Provisional Payments Made under Department of the Navy Contract NObsr-59595 with Hazeltine Electronics Division, Hazeltine Corporation, Little Neck, New York

For a period of about 3 years, Hazeltine had interest-free use of more than \$2,600,000 of Government funds that it had received as provisional payments even though it was aware from the beginning of the period that the provisional payments it had received were in excess of the price proposed to the Navy for negotiation of the final contract price. Also, we found no record of any attempt by the Navy to recover the excess payments, although it was readily apparent to the Navy that the provisional payments far exceeded the maximum contract price that would be established. At the average interest rates for United States Treasury bills during the 3-year period, interest cost to the Government on these funds totals about \$242,000.

We brought this matter to the attention of the Navy and the Navy obtained a refund of the more than \$2,600,000. On two separate occasions, the Navy attempted to obtain interest from Hazeltine for its retention of the excessive provisional payments. However, on both occasions Hazeltine refused to pay interest, stating that in its opinion it had no liability, equitably or otherwise.

We recommended that the Department of the Navy collect interest from Hazeltine by making offsets against payments to be made to Hazeltine under outstanding Government contracts held by that Corporation. We also recommended that, in the settlement of this matter, Hazeltine be allowed an appropriate credit for interest on amounts on which Hazeltine can show that, as a result of unwarranted Governmental delays in issuing contractual documents, the Corporation was not paid in accordance with what would normally be expected under its contractual agreements with the Government.

Index No. 186

B-146758, December 4, 1962

Review of the Pricing of Spare Parts Purchased under Department of the Navy Fixed-Price Contracts Negotiated with Aeroflex Corporation, Aeroflex Laboratories Division, Long Island City, New York

The prices negotiated by the Department of the Navy's Aviation Supply Office for two contracts, amounting to \$326,413, included allowances for material costs that were greater than Aeroflex could expect to incur based on its prior costs. Had the Aviation Supply Office reviewed Aeroflex's most recent costs before negotiating the prices of these two contracts, it would have been in a sound position to negotiate a reduction of \$41,274 in the contract prices.

The Navy informed us that it will institute an audit of the contracts and that, if the audit indicates that contract price reductions are warranted, the Aviation Supply Office will vigorously pursue all courses of action to obtain them.

Index No. 187

B-146760, December 26, 1962

Examination into the Pricing of Subcontracts for Nuclear Submarine Components Awarded by the Plant Apparatus Department of Westinghouse Electric Corporation, Pittsburgh, Pennsylvania to Another Department of Westinghouse and Charged to the Department of the Navy under Cost-Plus-A-Fixed-Fee Contracts

The Plant Apparatus Department of Westinghouse, under the Navy prime contracts, awarded subcontracts for 84 pumps and 72 casings to a manufacturing department of Westinghouse at prices totaling \$8,700,360 without obtaining the manufacturing department's estimated cost of performance under the subcontracts being awarded or information as to costs actually incurred in the prior production of similar components. Cost estimates prepared by the manufacturing department before the subcontract awards indicate that prices \$2,241,000 lower than those accepted would have covered costs and afforded a profit at the 10 percent rate Westinghouse usually included in the price for these items. These cost estimates seemed reasonable when compared with cost data on prior orders that were also available at the time of negotiations. The Navy approved the awards without requiring Westinghouse to furnish its cost estimates or prior cost data. If the Navy had obtained this information before approving these subcontract awards, it would have been in a sound position to obtain prices about \$2,241,000 lower than were paid for these items.

Westinghouse advised us that in response to our findings it conducted separate and thorough reviews of the activities of its two departments in respect to these subcontracts and that it was the position of the company that no recovery should be sought from Westinghouse.

The Navy concurred with our findings and advised us that it has withheld sufficient funds from Westinghouse under the prime contracts to protect the Government's interest.

We referred copies of this report to the Department of the Navy and the Department of Justice with the recommendation that the Navy, in cooperation with the Department of Justice, take all available and appropriate action to resolve this matter and obtain proper recovery from Westinghouse Electric Corporation.

Index No. 190

B-133042, January 8, 1963

Review of the Administration of Construction of Certain Launch Facilities for the Atlas and Titan Intercontinental Ballistic Missiles at Selected Air Force Bases

The award of advertised fixed-price contracts for construction of ATLAS launch facilities located at Warren and Forbes Air Force Bases and TITAN I launch facilities located at Lowry Air Force Base by the Department of the Army, Corps of Engineers, did not adequately protect the interests of the Government.

Although the contracts were awarded at fixed prices after competition had been obtained through formal advertising procedures, the initial specifications provided by the Air Force were so incomplete and inadequate, and the requirements were modified so frequently and to such extent, that ultimately it was necessary for the Corps of Engineers to abandon the fixed prices and to negotiate final prices on the basis of total costs claimed by the contractors for the work performed. Bids were submitted by prospective contractors, but there was no assurance of a mutual understanding between the Corps of Engineers and the bidders as to the initial statement of work to be performed or as to interpretation of available drawings and specifications. Furthermore, since the specifications were not clearly defined, and since the competitive bids obtained through advertising were not supported by detailed price proposals, there was no clear understanding between the contracting parties as to the work covered by the bids and the contract prices initially established. Subsequently, controversies arose as to the amounts by which the contract prices should be increased or decreased for changes in the work requirements. Benefits normally resulting from the use of advertised fixed-price contracts were nullified by the need to negotiate final prices as a result of the indefiniteness of the original specifications and the impact of substantial changes to the original work requirements, coupled with scheduled dates for completion of construction which remained relatively firm. Some prime contractors and subcontractors did voluntarily furnish certain cost information in support of claims for price adjustment. However, the Corps of Engineers was required to negotiate price settlements for advertised fixed-price contracts on the basis of contractors' incurred costs without (1) knowledge of information supporting the prices bid for the original statements of work, (2) the right to require that adequate cost records be maintained, (3) the right to examine such records as may have been kept, and (4) other controls that generally are available to the administrative agency under contracts awarded through negotiation.

It was not possible to determine in retrospect whether the award of negotiated contracts rather than formally advertised fixed-price contracts would have resulted in lower costs to the Government for construction of missile launch facilities now completed. However, use of an appropriate form of negotiated contract, and recognition of the provisions set forth in the Armed Services Procurement Regulation relating to the use of negotiated contracts, would have improved substantially the understanding of the parties as to the work to be performed under the contracts and would have afforded the Government the opportunity to be assured that settlements negotiated with its contractors were equitable and reasonable.

We recommended to the Secretary of Defense that formally advertised fixed-price contracts not be used when either the specifications are not sufficiently complete to fully define the task to be performed or there is reasonable expectation that substantial changes will be made in those specifications. Also, we recommended to the Secretary of Defense that, before settlement of existing formally advertised fixed-price contracts on a total cost basis, the contracting agency be required to obtain appropriate cost data and perform appropriate audits thereof

and that the settlement agreements contain specific provision for access by the General Accounting Office to all records relating to the contracts and their settlement.

Index No. 191

B-146757, January 15, 1963

Examination of the Catalog Prices Charged for Klystron Tubes under Noncompetitive Procurements Negotiated by the Military Departments and Their Prime Contractors with Varian Associates, Palo Alto, California

Under sole-source military procurements for klystron tubes, totaling over \$5 million, Varian quoted prices from its catalog and refused to furnish supporting cost data or negotiate the prices even though commercial catalog pricing was not appropriate for unique military hardware and effective competition was lacking to insure the reasonableness of such prices. The prices which Varian unilaterally established on Government orders frequently exceeded the company's current cost of production by more than 100 percent. Varian's refusals to furnish cost data were based on statements that its klystron tubes were proprietary items and/or catalog products. However, the sales of these tubes were almost exclusively to the military and the Government had borne, through research contracts and prior procurements, a substantial part of the cost of Varian's development of klystron products.

This matter was brought to the attention of the Department of Defense and the three military departments. The Department of Defense informed us that it believed Varian was wrong in its position that the tubes "should be treated as catalog items for the purpose of withholding cost data and avoiding price negotiations." We were informed further that the military departments had been meeting with Varian in an effort to arrive at some reasonable basis for future contract negotiations and pricing.

Index No. 193

B-146748, January 31, 1963

Review of Uneconomical Procurement of Certain Aircraft Engine Bearings by the Department of the Navy

The Navy incurred additional costs of about \$408,000 during fiscal year 1962 because it purchased certain aircraft engine bearings from the aircraft engine manufacturer on a noncompetitive basis rather than competitively from the producers of the bearings. Although the Air Force, which is responsible for the procurement of such bearings, had advised the Navy that the bearings could be bought for about one-third less if purchased competitively, the Navy insisted on the purchase being made from the engine manufacturer. Also, the procurement of some of these bearings was unnecessary since identical bearings were being disposed of by the Navy as excess to its needs. The unnecessary purchase resulted in further additional cost to the Government of about \$48,000.

In commenting on our findings, the Navy expressed doubt that the Government had the rights to the technical data needed to buy the bearings competitively and stated that the Navy considered it necessary to have the quality assurance services of the engine manufacturer. The Navy concluded that the purchase of these bearings from the engine manufacturer on a noncompetitive basis was neither wrong nor wasteful of Government funds.

We found, on the other hand, that the Air Force had determined that competitive procurement of these items was not barred by lack of rights and had purchased identical bearings directly from the producers. In addition, the Air Force had found that its own inspections of the bearings at the bearing producers' plants were more extensive and thorough than those performed under the engine manufacturer's quality assurance program. Accordingly, there seemed to be no reason to believe that satisfactory bearings could not have been obtained at a lower price through competitive procurement methods. Therefore, we disagree with the Navy's position that the procurement of these bearings was neither wrong nor wasteful of Government funds.

Index No. 197
B-133340, February 19, 1963

Review of Relocation Costs Incurred by Contractors with the Department of Defense and the National Aeronautics and Space Administration for the Recruiting of Salaried Personnel Who Terminated Employment Shortly after They Were Hired

In a review conducted at 28 plants of 21 major aerospace contractors, we found that, during a recent 12-month period, over 1,400 newly hired individuals who had been relocated, largely at the expense of the Government, voluntarily terminated employment or were discharged for improper conduct before they had completed a year's service. Only a small portion of the \$892,000 incurred in relocating these short-term employees was recovered by the contractors. Our review disclosed further that some of these individuals were shifting between Government contractors at their own discretion and receiving relocation allowances for each move. For example, for various personal reasons, one engineer worked for three aerospace contractors within a period of 16 months and received reimbursement of about \$2,700 for the expense of relocating to each contractor's plant. Such shifts indicate a basic need to discourage short tenures of employment, since they not only result in excessive relocation expenditures but also tend to disrupt important defense and space activities.

The Department of Defense and the National Aeronautics and Space Administration agreed with our proposal that a review of the adequacy of existing policy guidance was in order. The Department of Defense stated further that the Armed Services Procurement Regulation Committee, in cooperation with the National Aeronautics and Space Administration, had commenced a study to review this matter and, in particular, to consider a length-of-service requirement as a condition to the allowability of relocation costs incident to recruitment. The Department of Defense said that we would be advised of the result of this study promptly upon its completion. We recommended that in connection with this study consideration also be given to prohibiting reimbursement to contractors for relocation costs of employees who previously were employed by other defense contractors, unless the employees met the agreed length-of-service requirement or refunded any relocation costs previously paid.

Index No. 198
B-146753, February 20, 1963

Review of Uneconomical Procurement of Aircraft Tires by the Military Services under Federal Supply Schedules Issued by the General Services Administration

Although there was an obvious lack of effective price competition among the six suppliers which furnished aircraft tires to the Government, the General Services Administration did not request cost data or other evidence to support the reasonableness of the prices quoted by the suppliers when establishing the prices of military aircraft tires to be incorporated into the annual Federal Supply Schedule contracts for 1960 and 1961. Also, our review of contractors' records disclosed the existence of accounting and other pertinent financial data which permitted the ready computation of reasonably accurate costs experienced by the contractors in manufacturing and selling those particular types and sizes of tires purchased by the Government during the period covered by our review. However, no real attempt was made to negotiate reductions of the quoted prices, which generally were the same as the prices listed in prior years' schedules. As a result, the prices accepted by the General Services Administration and paid by the military services were substantially higher than seem reasonable in relation to the contractors' costs to manufacture and sell aircraft tires, and the Government experienced unnecessary costs in its procurement of these items.

The Air Force and the Navy awarded formally advertised and negotiated contracts for military aircraft tires directly to the manufacturers during 1961 at prices totaling about \$22 million, representing reductions in prices of about \$6.8 million or 24 percent of the price which would have been paid if these procurements had been made under the Federal Supply Schedule procedures. Had a comparable percentage of reduction been obtained for all aircraft tires purchased for the military services during 1961, additional reductions in prices to the Government would have amounted to about \$3.1 million. Furthermore, had the procedures for establishment of prices directly with the manufacturers by the three military services been used in prior years when aircraft tires were purchased in larger quantities, greater savings probably would have been realized.

We proposed to the Administrator of General Services and to the Secretary of Defense that action be taken to negotiate an appropriate adjustment of prices charged the Government for aircraft tires under negotiated Federal Supply Schedule contracts awarded the six tire manufacturing contractors. In January 1963 we were advised that joint action had been initiated to review cost data and other information bearing on the question of price adjustment.

Index No. 204

B-146768, February 28, 1963

Review of the Rejection of Low Bid on Procurement of AN/GRC-19 Radio Sets by the United States Army Electronics Materiel Agency

The Government incurred additional costs of about \$180,000 when a bidder on an advertised contract did not receive the award because its bid was predicated on the rent-free use of Government-owned property in its possession having an acquisition cost of less than \$14,000. Since procurement regulations prohibit an award of an advertised contract based on the rent-free use of such property, the award was made on June 24, 1961, to the next low bidder whose bid was \$180,904 higher. Further, neither the invitation for bid nor the lower bidder's facilities contract clearly stipulated that Government property could not be used in performing an advertised contract in the absence of an agreement for the payment of rental.

We brought our findings to the attention of the Department of Defense. In reply, the Assistance Secretary of Defense (Installation and Logistics) suggested that a feasible and practical solution to the problem is to have rental rates established in each facilities contract. He further stated that the Department is studying whether the contractor should pay the rental or whether the rental should be used only in evaluating the bids.

DEVELOPMENT AND PROCUREMENT OF NEW TYPES OF EQUIPMENT AND SYSTEMS

Index No. 28

B-133250, February 29, 1960

Review of Aircraft Procurement Programs in the Department of the Navy, Part I

Decisions were made to proceed with production of aircraft and equipment on a volume basis notwithstanding the unfavorable prospects for producing an acceptable product. Moreover the records do not contain evidence of a realistic expectation of overcoming the difficulties or that consideration was given to these problems in relation to the cost.

Successive orders for production of aircraft and equipment in volume quantities were placed despite known serious deficiencies which indicated their inadequacy to accomplish the mission intended or before testing and evaluation of initial pilot models to determine performance capabilities. There were repeated indications at successive stages of production that serious deficiencies existed which were not being corrected and that other significant deficiencies were continuing to come to light. These deficiencies, however, were not recognized or considered by the Navy to be of sufficient importance to terminate, suspend, or reduce volume production; instead, additional quantities were ordered. As a result, over \$600 million was spent for aircraft and equipment which were incapable of performing the designated mission.

We recommended to the Secretary of the Navy that the final selection of an aircraft design to meet an operational requirement be made as a result of a course of action designed to better enable the Department of the Navy to discriminate among the various designs submitted. This course of action would be in the form of limited development of the most promising designs to gain more information in order to improve the Navy's ability to make a good choice. This method would provide greater assurances of the aircraft's meeting the operational requirements, and also minimize the occurrence of problems during production. We also recommended that (1) responsibilities for surveillance of programs be more clearly fixed, (2) a focal point be established with respect to each program for accumulating, consolidating, and digesting all pertinent information bearing on the utilization of the program or its progress or status, and (3) each aircraft and equipment program be evaluated periodically as a whole.

Index No. 36

B-118755, April 29, 1960

Examination of Selected Activities under Department of the Army Contracts with Western Electric Company, Incorporated, New York, N.Y. for Nike Guided Missile Weapon Systems

The Army programed expenditures of about \$500 million over fiscal years 1957 through 1961 for the conversion of NIKE-AJAX ground systems to the more advanced NIKE-HERCULES on the basis that quantities of HERCULES systems could be acquired more economically through a conversion program than by the production of new units. However, most of the estimated savings supporting the conversion program were due to a lesser tactical capability of converted units in that they contained provision for fewer launching sections capable of firing the advanced missile than were contained in new units. The Army study which recommended the conversion program did not mention the difference in tactical capability between new and converted units. Since long-range plans of the Army called for adding to the converted units the additional launching sections needed to reach the tactical capability of new units, most of the estimated savings indicated by the Army study would therefore not materialize.

Over 1 year after making its study, the Army negotiated a contract for an initial quantity of converted units; however, by that time the Army had pricing information available which indicated that new units could be obtained in the same period at lower costs than converted units. In view of the possibility that new production would be cheaper than conversion, we suggested to Army officials that the conversion program be restudied. Subsequently, the Army canceled the contract for the initial quantity of converted units and replaced it with an order for new units at a saving of \$4.6 million. The Army's restudy of the conversion program showed that conversion would have to cost at least \$37 million more than procurement of a like quantity of new units.

We found also that, under the fourth production contract with Western Electric for NIKE systems, the Army continued to procure major components through the prime contractor and a first-tier subcontractor rather than directly from the manufacturers. The prices of these components included allowances to those companies of \$4 million for administration and profit, although they did not take part in the manufacture of the components. The components were shipped by the manufacturers directly to the Government or other user, and the prime contractor did not exercise either design or manufacturing control over them. In light of the limited contribution of the prime contractor and first-tier subcontractor, which diminished as production progressed, and since coordination between the companies of system design and production data was provided for under separate Government contracts, there did not seem to be adequate justification for continuing the indirect procurement through the fourth production contract or for paying substantial allowances to those companies not taking part in the production.

Our review further disclosed that the prime contractor subcontracted part of its requirements for NIKE gyroscope components to a high-cost producer when another source of supply was capable of furnishing the total quantity required for about \$595,000 less. In addition, certain subcontractors of Western Electric enjoyed interest-free use of Government funds which had accumulated to \$5 million over a period of about 2 years because the Army did not require the prime contractor to limit provisional payments to subcontractors to incurred costs plus contemplated profit.

Index No. 40

B-133042, May 19, 1960

Initial Report on Review of Administrative Management of the Ballistic Missile Program of the Department of the Air Force

The ballistic missile program is the largest single military program undertaken by the United States involving the expenditure of about \$2 billion a year. The need to accelerate this program and the lack of in-house capability within the Air Force prompted the Air Force to decide in 1954 to contract with a private corporation for the systems engineering and technical direction of the program. In view of the urgent conditions existing in 1954, this decision appears to have been appropriate as an emergency measure. However, although more than 5 years had elapsed, the Air Force had not developed an in-house capability to carry out the functions assigned to the contractor, Ramo-Wooldrige Corporation, now Space Technology Laboratories, Inc., a wholly owned subsidiary of Thompson Ramo Wooldrige, Inc.

In view of the significance of this program and the degree to which effective management of the program depends on the systems engineering and technical direction for continued progress and future planning, the question arises as to whether such a vital function in a major long-range program should continue to be performed by a contractor or whether it would be more advantageous for this function to be exercised directly by the Government.

The Air Force was assigned the responsibility for directing and managing a program which is vital to the welfare of the Nation. To carry out this grave responsibility, the Air Force must provide leadership to a significant segment of the industrial capacity of the Nation, directing work in new complex fields and guiding the operations of all the major contractors and their subcontractors and vendors so as to obtain ballistic missiles when needed in the most effective, efficient, and economical manner. By delegating the technical aspects of this management to a contractor, the Air Force, to a significant degree, removed itself from the direct management of the program and, as a practical matter, shifted a portion of its responsibility for the success of this crucial program to a contractor.

A program of this importance should be conducted under the direct leadership and responsibility of the Government agency to which it is entrusted. Furthermore, a function which so significantly affects a major segment of our industry more appropriately should be performed by a Government agency rather than by a contractor, particularly when the program is continuing in nature.

Index No. 58

B-133256, November 30, 1960

Review of Development and Procurement of New Combat and Tactical Vehicles by the Department of the Army

The Department of the Army procured nearly 19,000 combat and tactical vehicles, valued at about 1.6 billion dollars exclusive of spare parts and modification costs, that had deficiencies, particularly in the engine, transmission, and track and suspension system areas, which seriously impaired their operation and maintenance. Although corrective modification had been extensive and extremely costly, the vehicles still contained serious deficiencies in the same areas mentioned above.

Index No. 126

B-146709, Feb. 28, 1962

Review of Programing and Procurement of Selected Operational Equipment and Communication Services and the Utilization of Certain Technical Personnel by the Department of the Air Force in the Semi-Automatic Ground Environment System (SAGE)

About \$13 million was unnecessarily expended by the Air Force in equipping and operating the SAGE system. The unnecessary expenditures for equipment, amounting to about \$10.8 million, were caused by failure to reduce the amount of consoles, generators, air-conditioning and boiler equipment at various sites to actual needs when operational experience became available, by premature purchase of gap-filler radars, and by failure to terminate a contract for the purchase of manual control equipment after it became apparent that the equipment was not needed for the SAGE system. The other unnecessary expenditures comprised the payment of at least \$1.5 million in improper minimum service charges for canceled services that had been released to other users, including the Army, and the training of SAGE operational personnel, at an estimated cost of about a half million dollars, who thereafter were not fully utilized to perform work they were specifically trained to do. We did not review the procurement of heavy radars or electronic computers or the construction of SAGE sites.

The Assistant Secretary of Defense (Installations and Logistics) agreed that appropriated funds had been expended unnecessarily by the Air Force, but stated that the overprocurement was caused by changing concepts, programs, and requirements. The Assistant Secretary stated that the Air Force had found uses for some of the excess equipment and that every possible corrective action was being taken to find uses for the remaining excess equipment and to change procedures and practices which could result in improper utilization of personnel and/or resources.

With respect to the payment of at least \$1.5 million in improper minimum service charges (MSC) for canceled communication services, the American Telephone and Telegraph Company agreed to the existence of erroneous payments and advised us that its total completed refunds amount to \$1,226,996 for SAGE. Also, the Air Force informed us that it is reviewing all MSC payments.

Index No. 134

B-146721, April 17, 1962

Examination of Procurement of 1,700-Gallon Unassembled Jettisonable Fuel Tanks by the Department of the Air Force under Negotiated Fixed-Price Contracts with Beech Aircraft Corporation, Wichita, Kansas, and Fletcher Aviation Corporation, Rosemead, California

The Government incurred unnecessary costs of about \$1,537,000 in the procurement because the Air Force awarded contracts for production of the tanks and related metal shipping containers without making (1) an adequate evaluation of drawings and specifications and (2) tests of preproduction tanks and shipping containers, obtained under a preceding development contract, to determine whether procurement of unassembled tanks was feasible. After substantial costs had been incurred, it was determined that the unassembled tanks could neither be packaged in the containers nor be assembled within a reasonable time.

Index No. 138

B-146714, May 16, 1962

Review of Development and Management of Selected Aircraft Crash Fire Trucks in the Department of Defense

Since 1952 the three military departments spent a total of about \$1.6 million in developing aircraft crash fire trucks for use with medium and small aircraft or for missile support, with considerable duplication of development efforts and costs.

At the time of our review, the Air Force and the Navy were planning to spend about \$14 million through 1963 in procuring their separately developed aircraft crash fire trucks for use with medium-size aircraft, although the Army had similar vehicles, the Class 1500 costing about \$9.4 million, excess to Army needs. Many of the excess Class 1500 vehicles were unused, but the Army was attempting to utilize these large vehicles, costing about \$70,000 each, by assigning them to activities normally using smaller aircraft crash fire trucks costing about \$14,000 each.

We recommended that the Secretary of Defense take positive measures to assure close surveillance and control by his office of the programs of the three departments. Unless this is done, in all probability each service will continue to independently develop aircraft crash fire truck equipment as being unique to its own needs even though the vehicles developed are for support of categories of equipment common to the other departments.

We found also that the Class 1500 fire trucks, now excess to Army needs, were procured in quantity without adequate pretesting that could have disclosed (1) the impracticability of accomplishing the purpose for which the vehicles were procured and (2) the need for numerous costly changes in the vehicle that occurred during volume production. Although many specification and design changes, costing over \$500,000, were made during production, the vehicles delivered required further changes, costing more than \$360,000, to remove limitations on their usefulness.

Index No. 142

B-146713, May 23, 1962

Review of the Development and Procurement of Similar-Type Helicopters within the Department of Defense

The Department of the Air Force developed and procured the H-43B helicopter for Air Force use at considerable additional cost at the time when an Army helicopter, the HU-1A, which was in the advanced stages of development, could fulfill Air Force requirements. The Department of Defense was aware that the Army helicopter would meet all Air Force requirements and expressed doubt as to the soundness of the Air Force cost estimates, but it did not take positive action to preclude the Air Force from developing and procuring the H-43B helicopter.

The Air Force acknowledged that the HU-1A helicopter would meet all of its requirements but advocated the development of the H-43B helicopter on the basis that it could be procured at less cost than the existing aircraft since the H-43B was an "off-the-shelf" item. However, its own engineers had pointed out that there was no sound basis to estimate cost. Information was available that the H-43B helicopter would require the development of a complete new aircraft and that the magnitude of necessary engineering changes could not be determined until the aircraft was tested. Nevertheless, the Air Force contracted

for the development and production of the H-43B in October 1957 before the Department of Defense had approved the program. The Department of Defense, in November 1957, requested the Air Force to withdraw from the contract but did not take positive action to see that this was done. As of September 30, 1961, the Air Force had obligated approximately \$61 million for the H-43B program as compared with the Air Force estimate that the program would cost about \$45 million.

Index No. 167

B-146745, August 31, 1962

Examination of the Procurement of Defective Controllers for Vertical Gyro Indicating Systems from Summers Gyroscope Company (Now Guidance Technology, Inc.), Santa Monica, California

The Government incurred unnecessary costs of over \$2,300,000 because action was not taken to prevent Summers Gyroscope Company from starting production of controllers when test results of preproduction models indicated that the controllers were defective and did not meet contract requirements. Inasmuch as the contract terms provided for progress payments based on costs incurred, the Government supplied a major portion of the funds for the volume production of these defective items. Despite continuing adverse test results, the Navy accepted delivery of 1,829 of these controllers produced under Navy and Air Force contracts. In so doing, the Navy provided that such modifications as were required to meet contract requirements would be made by Summers at no cost to the Government. Although some modifications were made by Summers, the controllers were not satisfactory to the Navy and the Navy disposed of its entire stock of Summers-manufactured controllers for about \$12,000. Recovery from Summers was not deemed feasible because of Summers' limited financial resources. Consequently, the Government's claim against Summers of about \$2,373,000 was settled for \$50,000.

The record shows that all of the most urgent requirements for the controllers were awarded to another company, the original producer of the controllers, and the balance of the requirements were awarded to Summers. Accordingly, it appears that the need for the controllers to be produced by Summers was not of sufficient urgency to warrant omission of the safeguard of obtaining a satisfactory preproduction model before volume production was undertaken.

It appears that the military services should provide contractors as well as contracting officials with guidelines in regard to the testing of preproduction models in order that the contractors may properly cooperate with the military departments. Accordingly, we recommended that the Department of Defense consider incorporating into the Armed Services Procurement Regulation its existing policies and procedures with regard to obtaining satisfactory preproduction models before volume production is started.

MAINTENANCE, REPAIR AND OVERHAUL

Index No. 5

B-133244, December 15, 1959

Review of Vehicle Maintenance and Replacement Costs, Department of the Air Force

Since the end of the Korean conflict the Department of the Air Force, due to internal budget limitations for procurement funds, consistently retained worn-out automotive vehicles far beyond the point of economical repair. At the same time large expenditures, often more than the costs of new vehicles, were being made for the maintenance of the worn-out vehicles.

From fiscal year 1956 to fiscal year 1960 the Air Force arranged to buy replacements for only a fraction of the vehicles reported by the supply system to require replacement as uneconomical to repair. In that period, the Air Force incurred an estimated \$5 million more in repair costs and depreciated market values on old vehicles than it would have cost in combined repair and depreciation for new vehicles to replace them.

Postponing the purchase of replacements for old vehicles cost the Air Force an estimated \$3 million more because of the increase in vehicle prices. In addition, about \$2 million will be spent unnecessarily for maintenance purposes each year for the next several years because of the inadequacy of the long-range program for replacing vehicles adopted by the Air Force in fiscal year 1959.

We recommended to the Secretary of the Air Force that the Air Force: (1) make a study and analysis of vehicle repair costs, (2) utilize the information obtained to direct necessary efficiencies and economies in repair operations and to determine

and plan financing for the most economical rate of replacing vehicles, and (3) fully disclose to the Congress the total costs of repairs, depreciation, and operation for vehicles in the Air Force fleet.

Index No. 97

B-133384, August 22, 1961

Review of the Utilization of Engines on Stored Aircraft in the Department of the Navy

The Navy incurred unnecessary costs in the overhaul of aircraft engines by failing to remove serviceable engines from stored aircraft for use in meeting current operating needs. Our review of the records pertaining to approximately 3,300 engines installed on stored aircraft at June 30, 1960, disclosed that 1,253 of these engines had been operated less than half the number of flying hours normally expected during a service tour. Many of these engines had accumulated only a few flying hours from the date of last overhaul. While these engines remained idle, the Bureau of Naval Weapons overhauled similar engines to meet current operating needs. In fact, 936 of the 1,253 low-time engines on stored aircraft of June 30, 1960, were models which were still in use by the Navy, and similar engines were being scheduled for overhaul at that date. Utilization of the remaining expected life in the service tour for these 936 engines would have resulted in a reduction in overhaul costs of more than \$5 million.

We, therefore, recommended that the Secretary of the Navy take appropriate action to provide that serviceable engines for which a need exists be removed from aircraft scheduled for storage and be utilized to satisfy operating requirements, thereby reducing engine overhaul costs.

Index No. 123

B-146720, February 28, 1962

Examination of Aircraft Maintenance Practices for Transport Aircraft in the Military Air Transport Service, Department of the Air Force

Air Force maintenance standards and practices for the Military Air Transport Service (MATS) transport aircraft appeared unnecessarily costly and complex in comparison with those of commercial airlines and required about twice as much maintenance labor per flying hour for similar aircraft. We estimated that MATS maintenance labor costs for transport aircraft similar to those of civil airlines were at least \$13 million higher during fiscal year 1960, than would have been incurred under practices comparable to those used by the airlines. Substantial maintenance labor costs were also incurred for other transport aircraft, and we believe that these could be significantly reduced by more efficient maintenance standards and practices. In addition, MATS transport aircraft were out of service for maintenance for much longer periods than the transport fleets of the airlines. These differences were so great as to show an urgent need for a thorough review of Air Force maintenance policies and practices by qualified engineers and technicians.

We also found that having separate Air Force and Navy field maintenance units at McGuire Air Force Base resulted in the use of excessive personnel to support the C-118 aircraft assigned to the Air Force and Navy transport wings of MATS at this base. Our review showed that the cost of maintaining the MATS C-118 aircraft at McGuire Air Force Base could be reduced by approximately \$800,000 per year by transferring all Navy maintenance responsibilities to the existing Air Force maintenance unit.

We brought our findings and conclusions to the attention of the Office of the Secretary of Defense and the Departments of the Navy and the Air Force. We proposed that (1) a thorough study of Air Force maintenance standards for transport aircraft be made by a military-industry technical group, (2) the Department of Defense establish and maintain realistic maintenance standards, and (3) responsibilities for field maintenance of all MATS aircraft at McGuire Air Force Base be assigned to the Air Force maintenance unit there.

Index No. 127

B-146707, March 23, 1962

Review of Contracting by the Ordnance Corps, Department of the Army, for Rebuild of Track Shoe Assemblies for Combat Vehicles

The Army awarded a fixed-price advertised contract for rebuilding T97 track shoe assemblies from a mixture of about 185,000 unused and used assemblies without determining the number in unused condition, even though past experience had shown that the cost of rebuild for used track was far greater than for unused track.

In addition, the Army stated in its invitations for bid that the tracks were "to a large degree used."

As a result, evidently all bidders, including the successful one, bid on the basis that all or practically all the tracks were used. Actually about 93,000 tracks, or one half of the total rebuilt, were in unused condition. We estimated that savings of as much as \$585,000 would have been realized if the quantity of unused track had been determined and a separate price for unused track had been requested in advertising for bids.

Also, over \$60,000 of unnecessary costs were incurred because T91E3 tracks were shipped to rebuild plants without first determining the condition of the tracks. Additional unnecessary costs of about \$138,000 were avoided when we brought to the attention of the Ordnance officials the need for inspection of track before shipping it for rebuild.

Index No. 185

B-133244, November 30, 1962

Examination of Costs and Manpower Involved in Maintenance of Noncombat Vehicles in the Department of Defense

Repair and maintenance of noncombat vehicles in the Department of Defense is costing about \$66 million a year more than it should, primarily because the Air Force and the Army have not established and administered adequate controls over the level of maintenance activities nor provided a reasonable basis for directing and evaluating the efficiency of maintenance operations. Compared with the Navy, whose effective surveillance of vehicle maintenance results in costs that compare favorably with those experienced by private operators of motor vehicle fleets, the Air Force and Army practices are wasteful and inefficient. If their vehicle maintenance operations were conducted as efficiently as those of the Navy, the Air Force could save about \$55 million a year and reduce its vehicle maintenance staff by about 10,000 men and the Army could save about \$11 million a year and reduce its staff by about 2,000 men.

We, therefore, recommended to the Secretary of Defense that he (1) direct the Air Force to centralize the technical direction and surveillance of vehicle maintenance, (2) direct the Air Force and the Army to install cost systems and other controls, (3) direct the Air Force to reconsider the need for a high proportion of military personnel in its shops, (4) direct the Office of the Secretary of Defense to inspect the reorganization of Air Force and Army maintenance, and (5) direct the Office of the Secretary of Defense to consider establishing uniform standards and controls for noncombat vehicle maintenance for the military services.

MILITARY ASSISTANCE PROGRAM

Index No. 6

B-133128, December 18, 1959

Examination of the Military Assistance Program Administered by the Department of the Navy

Our review of the military assistance program administered by the Department of the Navy disclosed that (1) the Department charged prices in excess of those authorized by legislation for certain materiel furnished under the military assistance program, (2) ship ordnance spare parts were programmed in excess of requirements, and (3) ships prepared for delivery under the military assistance program received more extensive and costly overhauls than ships in the active United States Fleet.

The Department of Defense issued a directive covering various areas of supply management. We were advised by the Department of Defense that this directive would provide the necessary control over pricing of military stocks furnished to the military assistance program by the Department of the Navy.

Index No. 8

B-132913, December 31, 1959

Review of Supply Activities for the Military Assistance Program, United States Army Logistical Depot, Japan

We found inadequate management of Depot stocks and failure to utilize large quantities of excess materiel available in the Far East and Pacific areas. These deficiencies in supply management were reflected in unnecessary ordering of large

amounts of materiel and delays in filling requisitions received at the Depot. As a result of our review, purchase requests totaling \$4.1 million were canceled.

We reported our findings and recommendations to the Department of the Army and the Assistant Secretary of Defense for International Security Affairs, and corrective action was taken or agreed to be taken in all instances.

Index No. 25

B-125084, February 29, 1960

Review of Administrative Costs of the United States Military Assistance Program Chargeable to the Federal Republic of Germany

The United States military agencies in Europe had not charged Germany for all administrative expenses which, under the existing country-to-country agreement, were to be assumed by Germany. The administrative expenses are paid initially by the United States with either Deutsche marks or dollars, with reimbursement to be made subsequently by Germany. As a result of our review, unreimbursed expenses of \$1,259,000 were recovered and deposited into the United States Treasury as miscellaneous receipts. An additional \$1.3 million of unreimbursed administrative costs, which we believe were primarily expenditures made initially in dollars, had not been recovered.

Index No. 26

B-133280, February 29, 1960

Review of the Pricing of Materiel Delivered to the Military Assistance Program by the Military Departments

The military departments received improper reimbursements for deliveries of materiel to the military assistance program (MAP). These improper reimbursements resulted from charging MAP for materiel that should have been transferred without charge as excess stocks and from charging MAP higher prices for nonexcess equipment than is provided for by the Mutual Security Act. With respect to nonexcess equipment, (1) older types of equipment were frequently transferred at original cost without reduction to reflect current condition and market value, (2) certain assemblies and spare parts were transferred at replacement costs which were much higher than original acquisition costs, and (3) other items were transferred at incorrect prices because of weaknesses in the compilation or use of pricing information.

We recommended that the Department of Defense aggressively monitor the pricing policies and practices of each military department to assure that charges for materiel delivered to the military assistance program are in accordance with the intent of the legislation.

Index No. 29

B-125061, March 21, 1960

Examination of the Military Assistance Program Administered by the Department of the Air Force

The military assistance program was overcharged for materiel furnished by the Air Force and appropriated funds available to the Air Force were augmented to an extent not contemplated by the Mutual Security Act.

Index No. 96

B-133363, July 31, 1961

Review of the Reservation of Army Excess Material for the Military Assistance Program

About \$25 million worth of material recorded as being excess to Army needs was not reserved for MAP although it was required to meet programed or projected MAP requirements. On the other hand, the Army was reserving for the military assistance program over \$100 million worth of excess material not required by MAP. The annual cost for storing and maintaining the unnecessarily reserved material amounted to about \$1.2 million. Army officials, upon being apprised of these under and over reservations, took corrective actions in most instances.

We also observed instances in which the military assistance program was overcharged for materiel delivered from Army excess stocks. As a result of our examination, the Army reduced its billings by \$946,237 for materiel delivered during fiscal years 1959 and 1960.

Index No. 104

B-132913, October 13, 1961

Review of the Management of Spare Parts for Army Equipment Provided to Far East Countries under the Military Assistance Program

The report is concerned with military assistance program supply activities at the United States Army Logistical Depot, Japan (USALDJ), and related aspects of logistics management in Korea, Taiwan, Vietnam, Thailand, and the Philippines.

Our review at USALDJ disclosed that (1) the stock levels which had been established and the material ordered against these levels were greatly in excess of quantities actually needed to support the MAP countries in the area, (2) large quantities of excess spare parts already in the Far East were not properly considered as being available to meet stockage requirements, and (3) needed stocks were not issued and ordered on a timely basis in some cases.

Our reviews in the Far East countries receiving the largest amount of military assistance disclosed substantial quantities of excess spare parts on hand in all the countries visited which had not been identified or reported by the countries for disposition and were, therefore, not available to meet the requirements of other MAP countries or the stockage requirements of USALDJ. In addition, we found basic weaknesses in the countries' logistical systems which resulted in significant instances of ineffective supply support and overordering of supplies.

We also found deficiencies in logistical support by the Department of the Army involving the failure to authorize the supply of certain needed parts, critical shortages of technical manuals, and the delivery of excess material to countries which had requested cancellation of the shipments.

We brought our findings to the attention of responsible USALDJ officials, and immediate and aggressive action was taken to correct the deficiencies. After evaluation by USALDJ personnel, action was taken, utilizing our stock studies to effect stock level reductions totaling over \$100 million and orders previously sent to United States supply sources for spare parts, valued at approximately \$17 million, were canceled.

Efforts were also intensified by the Military Assistance Advisory Groups to improve the supply operations in the MAP countries, and overall programs were initiated in Taiwan and Korea to correct the deficiencies disclosed by our examination. We were informed that in Taiwan orders amounting to \$3.6 million had been canceled and \$53 million worth of excesses had been reported for redistribution by September 1960.

Index No. 169

B-132913, August 31, 1962

Summary of Reviews of the Maintenance and Supply Support of Army Equipment Furnished to Far East Countries under the Military Assistance Program

This report is an unclassified summary of four classified reports issued to the Congress on our reviews in Taiwan (B-125087, dated May 24, 1962), Korea (B-125099, dated June 8, 1962), Thailand (B-132913, dated August 31, 1962), and the United States Army Logistical Depot, Japan (B-132913, dated April 27, 1962).

Large quantities of equipment delivered to Korea, Taiwan, and Thailand later became defective largely as the result of maintenance and supply deficiencies and vehicles and assemblies for Military Assistance Program countries in excess of the countries' requirements were being rebuilt by the United States Army Logistical Depot in Japan.

During our reviews we brought the deficiencies disclosed, together with our proposals for corrective action, to the attention of the United States military advisory personnel in the countries involved and corrective action was taken in most instances. We also brought out findings and proposals for improving MAP logistic activities to the attention of the Secretary of Defense. The Office of the Assistant Secretary of Defense for International Security Affairs concurred generally in our findings and informed us of the over-all and specific actions being taken by the Department of Defense; Commander in Chief, Pacific Area Command; United States Army Logistical Depot in Japan; and the individual Military Assistance Advisory Groups in the three countries where our reviews were conducted.

Index No. 189

B-125099, January 8, 1963

Review of the Local Currency Military Budget Support Program for Korea

Because of weaknesses in controls by United States agencies over military budget support funds, together with deficiencies in the administration of these funds by the Republic of Korea Army, funds provided by the United States to the Korean Army were not effectively utilized.

We brought the deficiencies to the attention of the Secretary of Defense, together with our proposal that the United States control the expenditure of military budget support funds by releasing such funds to Korea for individual projects which had been mutually agreed upon by Korea and the United States rather than by releasing funds in support of a total budget. The Office of the Assistant Secretary of Defense for International Security Affairs informed us that specific project support would be impractical because of the increased administrative workload and other considerations.

The identification of all funds contributed to Korea on a specific project basis could entail an increase in the volume of administrative work. However, the more important military projects warrant specific identification to ensure that functions and items essential to the maintenance, readiness, and support of costly United States-furnished facilities and equipment are performed or provided. Such identification of projects would increase United States control of military budget support funds.

We therefore recommended to the Secretary of Defense that efforts be made to identify the more important projects essential to the over-all Military Assistance Program objectives in Korea and that appropriate portions of the budget estimates and military budget support fund releases be based on such projects. We also recommended that project implementation be subject to careful surveillance and that involved portions of United States funds be withdrawn when evidence exists that either agreed-upon projects are not being undertaken or earmarked funds are being used for nonapproved purposes.

MILITARY CONSTRUCTION

Index No. 11

B-133259, January 13, 1960

Review of Family Housing Construction at Granite City Engineer Depot, Granite City, Illinois, Department of The Army

A congressional cost limitation of \$642,000, established under section 608 of the Department of Defense Appropriations Act, 1956 (69 Stat. 315), for the construction of 50 family housing units at the Granite City Engineer Depot was violated through the arbitrary transfer of approximately \$250,000 of housing costs to other items not subject to the limitation.

The project was initially advertised by the Corps of Engineers, and the housing bids of all contractors were substantially in excess of the statutory limitation. All bids were rejected and proposals were requested for negotiated procurement.

We found that in the negotiated proposal of the successful contractor the amount quoted for items subject to the limitation had been decreased to bring the cost within the limitation, and amounts quoted for other items were arbitrarily increased to almost 300 percent of the costs of the same items as presented in the original bid of the contractor.

Index No. 47

B-133102, July 29, 1960

Review of Capehart Housing Program of the Department of Defense

We found at 15 of the 40 installations we reviewed that about 5,900 houses estimated to cost over \$147 million were being built or programed in excess of actual or apparent needs. A total of about 26,600 Capehart housing units were being built or programed for construction at the 40 installations. Our findings with respect to the excess houses were based on actual needs as determined by the proper or reasonable application of the departments' requirements criteria at the time of awarding the construction contract or approval of the housing project by the Congress. However, a substantial number of additional houses in the communities could have been considered as available had more realistic criteria been used. One of the primary reasons for the overbuilding was the failure of the departments to recognize that many members of the service prefer to live in personally owned or rented homes. In most cases, also, the departments restricted

their surveys of available housing solely to that currently occupied by military personnel and, as a result, failed to determine the number of vacant adequate houses in the community.

The impact on the local economy of the overbuilding of Capehart housing could not be fully evaluated. However, Federal Housing Administration (FHA) insuring offices reported that mortgage loans were in default on a total of 300 housing units because of the completion of Capehart housing projects. Based on FHA experience for losses on similar property acquired by them, we estimated that losses on these properties will range from \$540,000 to \$1.2 million.

Index No. 60

B-118763, December 30, 1960

Examination of Conversion from Cost-Plus-A-Fixed-Fee Basis to Fixed-Price Basis of Certain Portions of Department of the Navy Contract NOY-83333 with Brown-Raymond-Walsh (a Joint Venture) for the Spanish Base Construction Program

The Navy's action in converting certain portions of the contract from a cost-plus-a-fixed-fee basis to a fixed-price basis may have added as much as \$9,400,000 to the costs to complete the Spanish Base Construction Program without providing any material increase in the scope of the contractor's services. The fixed price established to complete the program included (1) administrative costs that were about \$6,700,000 in excess of a reasonable estimate of the amount to be incurred, based on the contractor's prior cost experience under the cost-plus-a-fixed-fee basis, (2) overestimates of more than \$113,000 in labor costs, and (3) a profit and contingency allowance to the contractor, which was about \$2,600,000 in excess of the fee the Government would have borne had the contract been completed on a cost-plus-a-fixed-fee basis.

Index No. 64

B-133316, January 24, 1961

Review of Programing and Financing of Selected Facilities Constructed at Army, Navy, and Air Force Installations, Department of Defense

We found that more than \$50 million worth of construction and construction-type work was accomplished by the military departments in fiscal years 1957, 1958, and 1959 outside the military construction program. Most of this work was financed with operation and maintenance funds. As a result, the Congress was neither advised of, nor permitted to review and specifically approve, all construction as contemplated in the military construction authorization processes established by the Congress to control and limit the extent of military construction.

The projects financed outside the military construction program with operation and maintenance funds included conversions of existing facilities from one end use to another, additions or extensions to existing facilities, and even new construction.

We recommended that the Congress, in order to strengthen review and control processes for military construction authorizations and to bring about a more complete disclosure and consistent handling of all construction by each of the military departments, consider the desirability of establishing by the enactment of appropriate legislation, or by such action as the Congress may otherwise determine, uniform definitions and basic policies to govern military construction program presentations by the military departments.

Index No. 76

B-133358, March 17, 1961

Review of Expenditures for Selected Maintenance and Construction Projects at Army Chemical Center, Edgewood, Maryland

We found that a golf course was to be constructed without the required approval of the Congress, at an estimated cost of \$90,000. The project was terminated after about \$9,000 of operation and maintenance funds had been expended or obligated thereon in violation of law.

We also found that the installation renovated three old houses, using operation and maintenance funds, at a cost in excess of, and contrary to the spirit of, the maximum cost limitations established by the Congress for new housing for officers. For example, the cost of renovating the house occupied by the Commanding General was over \$61,000 as compared to the statutory limitations of \$22,000 for the construction of a house for an officer of that rank. Also, the cost of renovating five other old houses ranged between 88 and 93 percent of the statutory limitations.

We recommended that the Congress consider establishing a limitation, on a yearly and a cumulative basis, on the amount that may be expended for the renovation, repair, modification, or rehabilitation of an existing military house without prior approval of the appropriate congressional committees.

Index No. 159

B-146728, July 23, 1962

Review of the Use of Proceeds from Scrap, Salvage, and Surplus Property Sales for Construction Purposes by the Air Force Logistics Command, Department of the Air Force

The Air Force improperly used about \$4 million of proceeds from the sale of scrap, salvage, and surplus property during fiscal years 1957 through 1961 to finance projects for the construction, improvement, and modification of redistribution and marketing facilities at 12 installations. The construction and improvement projects financed in this manner constitute public improvements within the meaning of section 3733, Revised Statutes (41 U.S.C. 12), which, in effect, provides that funds for such projects must be specifically authorized by the Congress. Since these projects were financed out of scrap sales proceeds, they were not made subject to this specific congressional review and approval.

The Air Force stated the opinion that the original program for using sales proceeds to finance the construction of certain redistribution and marketing facilities was within the authority granted by the appropriation acts and consistent with an interpretation by the Air Force General Counsel. The Air Force agreed, however, that projects costing \$1,146,519 should have been financed as military construction, rather than out of scrap sales proceeds.

We believe the Air Force opinion that the annual appropriation acts permit the use of scrap sales proceeds for projects of the nature described in this report is erroneous and is contrary to the intent of the Congress. In our opinion, the provisions of the appropriation acts concerning the use of proceeds from the sale of scrap, salvage, and surplus material were not intended to authorize construction-type projects which would otherwise be subject to the specific controls imposed by the Congress on military construction.

We notified the Secretary of Defense that the acquisition, outside the military construction program, of facilities such as those described in our report is legally improper and that, unless authority is obtained from the Congress to use proceeds from the sale of military scrap, salvage, and surplus property to finance construction projects of the types cited herein, funds for the construction, improvement, and modification of redistribution and marketing facilities should be obtained in the manner prescribed by law for all military construction programs.

Index No. 206

B-133149, February 28, 1963

Examination of the Costs to the Government for Storage of Petroleum in New Commercial Facilities under Department of Defense Negotiated Contracts

In order to satisfy Department of the Air Force requirements, the Defense Petroleum Supply Center negotiated eight contracts for petroleum storage in new dispersed and protected commercial (contractor owned and operated) facilities; and, as a result, the Government will incur about \$10.3 million higher costs than if similar Government facilities had been acquired. The increased costs will amount to almost one-third of the Government's total expenditures for the fixed periods of the contracts, and the Government will not have title to the facilities unless an additional \$9 million is paid. We found no evidence that Air Force officials had compared the costs of commercial facilities with the costs of Government facilities before decisions were made to contract for commercial facilities. Had such comparisons been made, they should have disclosed that disproportionately higher costs would be incurred for storage in commercial facilities.

We recommended to the Secretary of Defense that the military departments be required to give appropriate consideration to the cost of Government ownership of needed storage facilities compared with commercial ownership of such facilities before decisions are made to acquire or lease such facilities. We also recommended to the Secretary of Defense that military departments requesting procurement of new commercial petroleum facilities be required to furnish comparative estimates for Government facilities to the Defense Petroleum Supply Center so that the latter can ascertain before contract prices are negotiated that costs for commercial facilities will in fact be lower than the estimates for Government facilities. Further, we recommended that the Secretary of Defense and

the Director, Bureau of the Budget, amend existing policy regulations so that cost justifications will be required before decisions are made to contract for products or services requiring construction of either commercial or Government facilities.

MANPOWER UTILIZATION

Index No. 65

B-133279, January 26, 1961

Review of the Cost of Excess Proficiency Flying in the United States Air Force

We reported that unless appropriate corrective action were taken, the Air Force would spend over \$112 million for aircraft maintenance and operating costs and \$71 million for flight pay, a total of \$183 million, in fiscal year 1961—and comparable amounts annually in subsequent years—to maintain in flying status nearly 27,000 officers who were either excess to stated Air Force requirements or who were occupying positions where current flying skills contributed little or nothing to effective performance of required duties. This cost to the Government was caused by the Air Force policy of retaining all officers in flying status who continued to have the ability, motivation, and physical qualification to pursue this career.

There were over 10,000 officers performing proficiency flying who were acknowledged by the Air Force to be excess to its needs for flying officers. If these officers were not required to fly, we estimated that the Government could save over \$42 million a year in aircraft maintenance and operating costs alone. In addition, there were included in the Air Force requirements for rated officers nearly 17,000 positions designated by the Air Force as requiring proficiency flying, although the duties of the positions did not appear to need flying skills. If the Air Force would remove the flight requirements from these positions, the Government could save an additional \$70 million annually in aircraft maintenance and operating costs.

Index No. 80

B-133370, April 28, 1961

Review of Manpower Utilization in Selected Areas of the Public Works Department, Fleet Activities, Yokosuka, Japan, Department of the Navy

The Commander, Fleet Activities, had requested that we review manpower utilization to assist local management in achieving improved utilization of its manpower.

Our review disclosed an inefficient use of manpower in overhauling and repairing vehicles, in performing base maintenance work, and in dispatching and driving Government vehicles. We found that this was due to the failure to develop and use labor standards in maintenance work, the lack of spare parts for the overhaul and repair of vehicles and equipment, and a decrease in the need for Government vehicles.

Our review disclosed also that the lack of spare parts at Fleet Activities delayed, for extended periods of time, the rehabilitation of vehicles and other equipment of the First Marine Aircraft Wing, thus preventing the Wing from maintaining the high state of military readiness required to accomplish its missions in the event of an emergency. We found that Fleet Activities had not developed a realistic program to take into consideration the advance planning and leadtime necessary to provide adequate spare parts support from the Navy supply system for rehabilitating this equipment.

Index No. 131

B-148167, April 9, 1962

Misassignment and Ineffective Utilization of Ready Reserve Personnel in the XV Corps, Sixth United States Army

Our review of selected units, representing about 9 percent of the authorized paid drill strength of the XV Corps, showed that a significant number of reservists receiving pay for attending weekly drills and annual active duty training periods have been occupying positions unrelated to their previous military active duty training, civilian occupation, or education. In addition, our review and Army reports showed that many reservists in paid drill status were not qualified in their assigned positions and, in some cases, could not be retrained in the units to which assigned.

The assignment of reservists to vacancies in reserve units irrespective of whether their qualifications meet the needs of the units or whether they could be more effectively used elsewhere in the event of mobilization has been caused, to a great

extent, by the overriding emphasis placed by the Army on maintaining authorized paid drill strengths. Because of this emphasis, unit commanders have been given strong incentives to maintain their units at the authorized levels, including a possibility of penalties if they continually fail to maintain these strengths.

The failure to utilize reservists in positions for which they are best qualified results in a waste of valuable skills, an unnecessary expenditure of funds and manpower for retraining purposes, and a need for additional trained personnel that would not exist if Ready Reserve personnel were properly assigned. The seriousness of this deficiency was illustrated by the condition of units called to active duty in the partial mobilization during the fall of 1961. We found that in the mobilized units reviewed, many reservists who had been in a paid drill status for lengthy periods of time were reported by the Army as not qualified in their military specialties. These reservists therefore required extensive additional training after mobilization.

Department of the Army comments on this matter, approved by the Secretary of Defense and submitted in his behalf, acknowledged that our report was generally correct and pinpointed an area which requires improvements. The Army also informed us of measures taken or planned to improve its classification and assignment of Reserve personnel.

Index No. 195

B-146777, February 13, 1963

Review of the Reenlistment of Undesirable Military Personnel

On the basis of our review, we estimate that the military services are paying about \$15 million a year in pay, allowances, and reenlistment bonuses to personnel with records of continued misconduct and/or job inefficiency who are permitted to reenlist. In addition, the Government is unable to recover about \$920,000 a year in unearned reenlistment bonuses because these individuals are discharged prior to the end of their reenlistment periods and are not financially able to repay the unearned portions of their bonuses. Additional sums, not readily measurable, are expended unnecessarily by the military services for court-martials and confinement of prisoners and by this Office, the Department of Justice, and the military departments in largely unsuccessful attempts to recoup unearned portions of reenlistment bonuses.

We found that the reenlistment of undesirable personnel was primarily due to a lack of effective screening of personnel and medical records at the time service personnel apply for reenlistment. We reported our findings to the Secretary of Defense, and we were advised by the Assistant Secretary of Defense (Manpower) that the military services have been instructed to review their reenlistment procedures and to take necessary corrective action. The Assistant Secretary of Defense informed us also that the Office of the Secretary of Defense will review the actions taken by the services to assure that adequate measures are provided to prevent the reenlistment of undesirable personnel.

Index No. 202

B-133370, February 27, 1963

Review of Manpower Utilization in the Maintenance of Facilities and Operation of Utilities at Selected Military Installations in Japan, Department of Defense

The Army, Navy, and Air Force had not developed complete and valid manning guides as to the number of personnel required to maintain facilities and operate utilities in Japan. In the absence of these data, the precise amount of overstaffing could not be determined. However, we estimate that the installations reviewed were staffed by about 1,800 Japanese nationals in excess of such manning guides as were available at an annual cost of approximately \$2.7 million. Despite this indicated overstaffing, many facilities had not been adequately maintained and large backlogs of work had accumulated. Some of this backlog, which should have been performed by station forces, was performed under contract in fiscal year 1961 at an additional cost of about \$465,000.

Inadequate management controls which contributed to the inefficient use of personnel included the lack of adequate work standards and estimates, inaccurate accumulation of work performance data, and failure of management personnel to systematically review and analyze significant variances between estimated and actual hours used to perform maintenance work. The failure of management to utilize other operating data available in internal reports was also a contributing factor in the inefficient use of personnel.

The Assistant Secretary of Defense (Manpower) advised us of actions being taken by the various military services to improve their manpower utilization,

including the development and application of staffing guides based on industrial engineering techniques, the establishment by the Air Force of a comprehensive program for the improvement of civil engineer maintenance management throughout the Air Force, and the imposition by the Army of more stringent controls over the use of station forces in performing alterations, modifications, and construction work.

COMMUNICATIONS

Index No. 2

B-133201, November 24, 1959

Review of Management of Leased Private Lines Telephone Facilities in the Department of Defense and Selected Civil Agencies

The Government was incurring excessive costs amounting to possibly more than a million dollars annually in the leasing of private lines telephone facilities. These excesses were the result of (1) the erroneous application of certain rates and (2) inefficient administrative practices on the part of the Government departments and agencies. Because of the highly complex nature of the problems involved in developing an accurate projection of the total effect of these uneconomical practices, we were not in a position to make a firm prediction as to the total amount of savings that could be accomplished by the corrective actions which we recommended.

Part of the excessive costs could be attributed to the fact that the American Telephone and Telegraph Company (AT&T) had not fully applied Tariff FCC No. 231, which is in effect a discount for volume service, to the eligible circuits of each Government department and agency. Also, in our opinion, AT&T is required to apply Tariff FCC No. 231 retroactively, to the date each group of circuits of each department and agency became eligible, and to make refunds accordingly. AT&T did not agree with our interpretation of this tariff.

We recommended that the Secretary of Defense and the Administrator, General Services Administration, take coordinated action with AT&T to initiate a study with the objective of simplifying both the Government's and the telephone industry's procedures in order to reduce administrative costs and to secure the necessary regulatory changes to establish the Government as a single customer for rate application purposes.

AUTOMATIC DATA PROCESSING

Index No. 51

B-125073, September 7, 1960

Review of Automatic Data Processing System at the Transportation Materiel Command, Department of the Army, St. Louis, Missouri

The Transportation Materiel Command (TCMAC), with the approval of the Department of the Army and the Department of Defense, installed an electronic automatic data processing (ADP) system at a cost of about \$300,000 for site preparation plus rental of about \$360,000 a year but, after 2 years of operation, the supply operations at TCMAC had not substantially improved. The failure to improve supply operations despite installation of the costly equipment was attributable to the fact that the feasibility and application study preliminary to selection of the equipment was inadequate and little action had been taken to correct existing basic weaknesses in the supply system before installing ADP equipment.

In addition, we found that the administrative reviews of the justification for and selection of ADP equipment by the Department of the Army and the Department of Defense were ineffective because they did not disclose the deficiencies in TCMAC studies nor recognize the inadequacies of the equipment initially selected. Also, the reviews did not recognize the necessity for correction of weaknesses in the system nor require that selection of new equipment be based on the facts disclosed by adequate capability studies.

Index No. 145

B-133118, May 31, 1962

Review of Automatic Data Processing System Used in Supply Management by the Department of the Navy, Aviation Supply Office, Philadelphia, Pennsylvania

The Aviation Supply Office (ASO) was one of the first military agencies to use high-speed electronic computer equipment in its operations. The first computer was installed at ASO in March 1954.

Our review disclosed that, in order for the automatic data processing system to make its fullest contribution to improved aviation supply management, significant deficiencies in its operations required correction. Because of deficiencies in the manner in which the data processing system was being used in determining needs for materials, in some cases, overbuying of materials resulted and, in other cases, shortages of parts developed which subsequently resulted in aircraft being grounded.

The shortcomings of the automatic data processing system at ASO were attributable primarily to lack of effective planning and preparation for the use of automatic data processing equipment and failure to take the remedial action necessary to correct deficiencies in the system when they were brought to the attention of ASO management. The Navy informed us that it is taking the remedial measures necessary to correct the deficiencies disclosed by our review.

Index No. 207

B-115369, March 6, 1963

Study of Financial Advantages of Purchasing Over Leasing of Electronic Data Processing Equipment in the Federal Government

The Federal Government is a large user of data processing equipment in its operations, but most of the equipment is leased. Of a total of 1,006 electronic computers installed in the Government at June 30, 1962 (626 in the Department of Defense and the three military departments; 380 in the civil departments and agencies) 867, or 86 percent, were leased. Rental payments for the fiscal year 1962 on such equipment were about \$145 million. These statistics exclude equipment used in certain classified military, intelligence, and surveillance operations.

Our study shows that very substantial amounts of money could be saved if the Federal Government purchased more of its data processing equipment needs. The detailed cost comparisons of 16 different electronic machine models, which constituted the principal part of our study, indicate potential savings of about \$148 million over a 5-year period. These significant possible savings apply to only 523 of approximately 1,000 electronic data processing systems installed or planned for installation on a lease basis by June 30, 1963. For additional use of the 523 machines after 5 years, there would be further savings at the rate of over \$100 million annually.

We believe that, to fully realize savings of such magnitude, basic changes in the Government's overall management system will be necessary. Decisions as to the financial advantages of purchasing will have to be made from the standpoint of the Government as a whole, and not primarily from the standpoint of individual using agencies as has been the practice in the past. In addition, more attention needs to be given to obtaining more complete utilization of the equipment acquired. We believe that the only practicable way in which the kind of coordinated management can be practiced to achieve the possible financial savings cited is through the establishment of a small, highly placed central management office in the executive branch of the Government. Accordingly, we recommended to the President of the United States that he establish such an office in his organization.

The report also contains a general recommendation to the heads of all using departments and agencies that they arrange for a prompt and complete reappraisal of their current plans to lease data processing equipment and take such action as is possible to realize the financial savings that may be available from purchasing such equipment and fully utilizing it.

TRANSPORTATION

Index No. 32

B-133298, April 25, 1960

Review of Selected Commercial Air Shipments of Household Goods of Military Personnel

Unnecessary costs were incurred as a result of shipping household goods of transferred military personnel to and from overseas points by commercial air transportation. Air transportation was used in cases where adequate surface transportation was available at much lower cost. A review of 13 expensive shipments of household goods by commercial air at a total cost of \$125,470 disclosed that shipment by surface transportation was feasible and would have cost only about \$23,000 or about \$102,000 less than the cost of shipment by commercial air. For example, household goods were shipped by commercial air from Texas to Pakistan at a cost of \$14,830, whereas they could have been shipped by surface transportation for only about \$1,750. In this instance, they would have arrived

in Pakistan by ship one week earlier than by air. Also, we noted that air shipments included a piano, a model ship, and a sled. Such items are obviously not essential to the health or wellbeing of the transferred personnel or for the prevention of undue hardship. Where items are considered desirable rather than essential, we believe that shipment should be by surface transportation unless there are cogent reasons justifying air shipment.

Index No. 41

B-133260, May 31, 1960

Review of the Utilization of Separate Army and Navy Ocean Terminal Facilities in the San Francisco Bay Area, Department of Defense

Three separate ocean terminals were operated by the military departments in the San Francisco Bay area for passengers and general cargo, although the combined volume of present and foreseeable future operations, based on peak volume during the Korean emergency, is within the operating capacity of one of the installations. The Naval Supply Center, Oakland, California, appears to be the one location which has sufficient facilities to serve as a consolidated terminal. Consolidation of terminal operations at the Naval Supply Center would result in recurring annual savings of at least \$4,600,000.

Index No. 102

B-133395, October 6, 1961

Review of Overseas Commercial Air Shipments of Military Cargo for the Military Assistance Program and Air Force Units by the Department of the Air Force

Our review disclosed that (1) the Air Force unnecessarily expended several million dollars during fiscal year 1960 for the commercial airlift of Military Assistance Program (MAP) cargo that could have been shipped by surface carriers, at substantially less cost, in ample time to meet the needs of the overseas consignees and (2) a considerable amount of the cargo shipped to these consignees, primarily Air Force Units, consisted of materiel procured in the United States though available locally in many overseas countries at a fraction of its commercial airlift cost.

We estimated that the Air Force paid over \$5.5 million in fiscal year 1960 to commercial air carriers for the movement of about 2,000 tons of MAP cargo. Examination at selected locations disclosed that most of the shipments involved supplies that were not utilized for some time after receipt or were noncritical items and could have been shipped by surface carriers. On the basis of limited tests, we estimated that the cost of surface shipment would not have exceeded \$1 million.

We proposed certain revisions in Air Force transportation and procurement policies that would require United States supply activities first to establish the need for commercial airlift of MAP cargo to overseas consignees before authorizing its use and that would permit local procurement overseas of commonly available materiel.

Index No. 114

B-133025, January 9, 1962

Review of the Use of Commercial Air Carriers for Overseas Travel and Shipment of Unaccompanied Baggage of Department of Defense Personnel

The Department of Defense spent over \$13 million for transporting its personnel and unaccompanied baggage overseas on commercial flights at published tariff rates, while at the same time there was ample space on scheduled military and contract flights of the Military Air Transport Service (MATS) to carry a substantial portion of this traffic. MATS flights included scheduled service on military-owned aircraft and on civil aircraft under contract to MATS at rates much lower than the published tariff rates of the carriers.

Our tests showed that over 50 percent of all overseas travel and baggage shipments by commercial air originated or terminated at overseas areas, and in many cases the same cities, served by MATS. We estimated that the unused capacity of MATS scheduled overseas flights in the same year was equal to about 9 times the number of DOD passengers and 20 times the weight of DOD baggage carried by commercial air to or from the areas served by MATS. We estimated that passengers and baggage moved overseas by commercial air service at a cost of several millions of dollars could have been accommodated on concurrently scheduled MATS flights at little, if any, increase in the cost of MATS operation during fiscal year 1960.

Index No. 128

B-133371, March 30, 1962

Review of Domestic Air Travel by Military and Civilian Personnel of the Department of Defense in First-Class Accommodations

At the transportation offices visited by us, we found that over 90 percent of all trips by air were made in first-class accommodations. The relatively few trips in coach accommodations were preponderantly on jet flights. Coach accommodations on nonjet flights were seldom used. An indeterminate but substantial proportion of the first-class nonjet flights could have been undertaken in lower than first-class accommodations so as to satisfy the legitimate requirements of the travelers and conserve travel funds. Many of the first-class jet flights could have been in jet tourist accommodations without affecting the missions of the travelers, since both types of accommodations were usually provided on the same flights. However, generally no attempt was made to secure the lower priced accommodations.

The Assistant Secretary of Defense (Installations and Logistics) in commenting on our findings agreed that savings could be effected and advised us that the Department's policy as to first-class jet travel is being revised to restrict such travel to unusual situations. In addition, internal audit guidance covering all travel will be strengthened in order to identify those organizations that are not complying with policy objectives.

PAY AND ALLOWANCES

Index No. 110

B-133232, December 29, 1961

Review of Housing Allowances Paid to United States Military Personnel Occupying Rental Guarantee Housing Projects in France

Housing allowances of the uniformed services were excessive prior to December 30, 1960, because they were computed on the basis of average rents, utilities, and other expense elements that were unduly high. This resulted in the payment of excessive housing allowances of more than \$2,345,000 from the time the projects were first occupied through December 29, 1960, a period of over 4 years. Since the excessive payments were made at rates that are not legally questionable, there is no basis for recovery action.

When we brought our findings to the attention of responsible officials, immediate action was taken to correct certain of the deficiencies. As of December 30, 1960, significantly reduced housing allowances were prescribed, thus effecting an annual saving of more than \$750,000. This action also corrected the other deficiencies identified by us.

Index No. 148

B-146729, May 31, 1962

Fraudulent Claims and Uneconomical Practices in Lodging and Subsistence Allowances Paid to Members of Shore Patrols, Department of the Navy

Our review disclosed (1) a widespread practice by temporary duty members of the shore patrol of submitting fraudulent claims for lodging allowances, (2) the unnecessary payment of lodging and subsistence allowances through failure to assign temporary duty members to available Government quarters and failure to require members to use available Government messing facilities, and (3) the payment of subsistence allowances when orders were not properly endorsed to authorize reimbursement. The widespread existence of these practices is evidence of a lack of management controls over the administration of shore patrol allowances.

We were advised by the Office of the Secretary of the Navy that possible fraudulent claims were being reviewed at Charleston, South Carolina, and would be reviewed at other major shore patrol areas.

As to future transactions, the Office of the Secretary of the Navy advised us of corrective action taken, including requirements that the Navy's internal auditors test the authenticity of receipts for lodging allowances and review compliance with regulations that require the use of Government quarters and messes whenever practicable.

Index No. 156
B-146735, June 29, 1962

Inadequate Rental Rates Charged for Government Quarters Furnished to Civilian Employees of the Military Departments in Alaska

Our review disclosed that rents charged to civilian employees occupying Government quarters at military installations in Alaska were significantly less than those that should have been established. This condition has existed for many years. We estimated that, at the time of our examination, the rents charged were at the rate of at least \$250,000 a year less than the rents that should have been charged.

The Assistant Secretary of Defense (Installations and Logistics) agreed that inadequate rents had been collected and he advised us that the three military departments and the Department of Defense were preparing a new rent formula to be coordinated with the Bureau of the Budget and that his office was establishing procedures to insure compliance with the new formula.

GENERAL

Index No. 37
B-133226, May 6, 1960

Review of the Government's Rights and Practices Concerning Recovery of the Cost of Hospital and Medical Services in Negligent Third-Party Cases

Our review disclosed that the Government did not recover several million dollars in costs each year, to which we believe it should have been entitled, for hospital care, medical treatment, and other benefits furnished to certain classes of eligible persons who are injured as a result of negligent or wrongful acts of third parties. This annual loss was sustained by the Government because some of the statutes authorizing such benefits do not enable the Government to assert a legal right of action to recover its costs either directly from the negligent party or out of proceeds recovered by the injured person from the negligent third party.

The Congress had recognized the right of recovery by the Government or others who incur costs in negligent third-party cases in statutes applicable to care for civilian Government employees, railroad employees, longshoremen, and harbor workers. In view of the significant loss to the Government where the right of recovery is lacking, we recommended that the Congress enact the necessary legislation, in the form of either a general bill or amendatory legislation for the specific agencies involved, as may be found advisable, to provide the Government with the right of action to recover its costs of furnishing hospital and medical care to injured persons in all negligent third-party cases.

Index No. 56
B-133245, November 30, 1960

Review of Certain Activities of the United States Civil Administration of the Ryukyu Islands

About \$3 million, appropriated in fiscal year 1956 for resettlement purposes, and still available for expenditure in 1960, was excess to firm requirements when appropriated and had not been allotted as of June 30, 1960. We found also that \$500,000, included in the fiscal year 1959 appropriation for specified services and projects of the Government of the Ryukyu Islands, was excess to needs in that year and was diverted to other projects not included in the agency's final justification of budget estimates to the Congress.

In addition, we found that about \$5 million of expenditures and proposed expenditures was not within the intended objectives and purposes for which the funds were originally provided.

Index No. 67
B-133347, January 27, 1961

Review of the Appropriations Accounts of the Department of the Navy

Our review of the appropriation accounts of the Department of the Navy disclosed certain improper obligations and expenditures of funds which constituted violations of sections 3678 and 3679, Revised Statutes (31 U.S.C. 628 and 31 U.S.C. 665(i)(2)).

Pursuant to section 3679, the Department of the Navy reported an overobligation of about \$8.7 million for the appropriation "Medical Care, Navy, 1958." Our review disclosed, however, that an additional overobligation of the appropriation, "Medical Care, Navy, 1958," of approximately \$2.6 million was not re-

ported as required by section 3679. Further, the payment of these costs from the operating funds of various Navy bureaus without being reimbursed from the appropriation "Medical Care, Navy, 1958," resulted in the violation of the provisions of section 3678.

Index No. 77

B-133032, April 12, 1961

Examination of Fraudulent Transactions Relating to the Accounts of Military Disbursing Officers

This report shows that, in 88 cases either disclosed by our audits or reported to us by the military departments, the Government was defrauded of approximately \$668,000. The report indicates the remedial actions taken in individual cases and also discusses action taken by the military departments to improve procedures and controls.

The most extensive area of fraudulent transactions identified was in the manipulation of military payrolls. Other areas included the diversion of Government funds to personal use by disbursing officers and collection agents and the falsification of documents to cover defalcations in imprest funds.

Index No. 85

B-133142, May 31, 1961

Review of Administration of the Dependents' Medical Care Program by the Department of the Army

Physicians' claims for medical care were higher in States where fee schedules had been distributed to physicians than in those States where the schedules had not been distributed. This condition prevailed even though the maximum fees negotiated for different States do not vary materially and in all States physicians are expected to charge their normal fees if these are less than the maximums. We estimated that there is an additional cost of as much as \$3 million to \$4 million annually as a result of charging maximum fees in lieu of normal fees. The report disclosed also that in some instances (1) hospital claims had been paid but the related claims for medical treatment were rejected on grounds that medical care was not authorized and (2) payments were made for medical services rendered after the dependent's eligibility had been terminated. The report also included our findings of certain unsatisfactory procedures related to the payment of claims.

Index No. 100

B-124520, September 29, 1961

Review of the Use of Local Currencies in Spain for Contracting and Administrative Purposes by the United States Government

Under the terms of bilateral agreements with the Spanish Government, the United States Government acquired substantial amounts of Spanish currencies (pesetas). These pesetas may be used for certain expenses incurred by the United States Government in connection with economic and military aid programs in Spain, including payments to Spanish contractors for goods and services.

Our review disclosed that United States agencies in Spain entered into agreements to pay with United States dollars certain costs which could have been paid with Spanish pesetas owned by the United States. Our review of selected cases revealed that the agencies were expending \$15.2 million to reimburse Spanish contractors for costs which they incurred in Spanish pesetas. In addition, the Military Assistance Advisory Group, Spain, expended \$178,000 during fiscal year 1959 to reimburse its employees for living allowances and travel expenses, although Spanish pesetas were already set aside for that purpose.

We were informed by the Deputy Director of Military Assistance, Office of the Assistant Secretary of Defense (International Security Affairs) that following our review joint instructions were issued by the Departments of State, Treasury, and Defense providing for maximum use of United States-owned Spanish currencies to defray costs incurred by the United States agencies in Spain.

APPENDIX 4

REPORT TO THE CONGRESS OF THE UNITED STATES

REVIEW OF UNECONOMICAL PROCUREMENT OF CERTAIN AIRCRAFT ENGINE BEARINGS BY THE DEPARTMENT OF THE NAVY

By the Comptroller General of the United States, January 1963

COMPTROLLER GENERAL OF THE UNITED STATES,
Washington, January 31, 1963.

B-146748

To the President of the Senate and the Speaker of the House of Representatives:

Enclosed is our report on review of uneconomical procurement of certain aircraft engine bearings by the Department of the Navy.

The Navy incurred additional costs of about \$408,000 during fiscal year 1962 because it purchased certain aircraft engine bearings from the aircraft engine manufacturer on a noncompetitive basis rather than competitively from the producers of the bearings. Although the Air Force, which is responsible for the procurement of such bearings, had advised the Navy that the bearings could be bought for about one-third less if purchased competitively, the Navy insisted on the purchase being made from the engine manufacturer. Also, the procurement of some of these bearings was unnecessary since identical bearings were being disposed of by the Navy as excess to its needs. The unnecessary purchase resulted in further additional cost to the Government of about \$48,000.

In commenting on our findings, the Navy expressed doubt that the Government had the rights to the technical data needed to buy the bearings competitively and stated that the Navy considered it necessary to have the quality assurance service of the engine manufacturer. Therefore, the Navy concluded that the purchase of these bearings from the engine manufacturer on a noncompetitive basis was neither wrong nor wasteful of Government funds.

We found, on the other hand, that the Air Force, which is responsible for the procurement of these aircraft engine bearings for the military departments, had determined that competitive procurement of these items was not barred by lack of rights and had purchased identical bearings directly from the producers. In addition, the Air Force had found that its own inspections of the bearings at the bearing producer's plants were more extensive and thorough than those performed under the engine manufacturer's quality assurance program. Accordingly, there seemed to be no reason to believe that satisfactory bearings would not have been obtained at a lower price through competitive procurement methods. Therefore, we disagree with the Navy's position that the procurement of these bearings was neither wrong nor wasteful of Government funds. The decision to purchase these bearings through the engine manufacturer was made even though it was known that they could be procured under the alternative procedures of the Air Force at substantially less cost. The decision was made without the evaluation and consideration of the Air Force procedure that was required, in our opinion, to determine whether the substantially greater cost was essential or justified. We believe that this case illustrates the need for a greater sense of individual responsibility for economy in Government operations. In our opinion the manner in which that responsibility is met should be considered when making personnel evaluations and management assignments.

Notwithstanding its position on these purchases, the Navy has advised us that it is developing a method of procurement under which it will buy the bearings competitively from qualified bearing producers but will enter into separate contracts with the engine manufacturer to obtain its quality assurance services. In this way, the Navy hopes to obtain competitive prices without sacrificing the quality assurance services it deems necessary.

On the basis of our review of the Air Force records of experience on competitive purchase of these bearings, the quality assurance services of the engine manufacturer appear to be unnecessary. Accordingly, we are recommending that the Secretary of Defense direct that an evaluation and comparison be made of the inspection and quality assurance procedures of the engine manufacturer and the Air Force to determine whether there is any need to obtain the engine manufacturer's services. In addition, since the two military departments frequently use identical aircraft engine parts and frequently exchange such parts, we are recommending also that the Secretary of Defense establish uniform standards for use in

determining when not only bearings but also other replacement spare parts for aircraft engines can be purchased competitively. We are further recommending that these standards provide that disagreements between the services on the method of purchase to be followed for specific parts be referred to the Department of Defense for resolution.

The purchases cited in this report as well as other cases reviewed by this office indicate that, despite the statements of policy and directives issued by the Department of Defense, the Navy has not taken effective action to make the maximum use of competition in the procurement of aeronautical spare parts. Also, this case demonstrates that the issuance of directives and policy statements cannot be relied upon to assure that the necessary steps are taken. Accordingly, we are recommending that the Department of Defense maintain close surveillance over Navy purchasing practices to assure that the fullest use of competition is made in the procurement of aeronautical spare parts.

Copies of this report are being sent to the President of the United States, the Secretary of Defense, and the Secretaries of the Navy and the Air Force.

JOSEPH CAMPBELL,
Comptroller General of the United States.

REPORT ON REVIEW OF UNECONOMICAL PROCUREMENT OF CERTAIN AIRCRAFT ENGINE BEARINGS BY THE DEPARTMENT OF THE NAVY

INTRODUCTION

The General Accounting Office has reviewed selected purchases of certain aircraft engine bearings under military interdepartmental purchase requests (MIPR's) issued by the Department of the Navy. Our examination was directed primarily toward an inquiry into the Navy's reasons for requesting sole-source purchase of aircraft engine bearings being bought for it by the Air Force. We also attempted to ascertain the approximate price advantage that accrues to the Government when such parts are bought competitively. However, we did not examine into the reasonableness of the prices charged by the sole-source supplier or its suppliers, and we therefore have not asked these contractors to furnish comments on the results of our review. Since comments were not requested from these firms, we have not included their names in this report. We also examined disposal records to ascertain if any of these bearings had been disposed of in the 12 months preceding October 30, 1961, the date of the first of the MIPR's were viewed. Our examination was made pursuant to provisions of the Budget and Accounting Act, 1921 (31 U.S.C. 53), the Accounting and Auditing Act of 1950 (31 U.S.C. 67), and the authority of the Comptroller General to examine contractors' records, as set forth in 10 U.S.C. 2313(b).

BACKGROUND

The Department of the Navy determines the number and type of aircraft engine bearings needed to support its aircraft engine overhaul and maintenance programs. After the number and type of bearings needed is determined, if the quantity on hand at naval storage locations or being purchased under existing contracts is not sufficient to meet the Navy's predicted needs, additional quantities are purchased.

Procurement responsibility for certain aircraft engines and parts has been given to the Air Force. For other aircraft engines and parts, procurement responsibility has been assigned to the Navy. The manufacturer of the engines on which the Navy planned to use the particular bearings that are cited in this report was under the procurement responsibility of the Air Force.

According to the minutes of a meeting of Army, Navy, and Air Force representatives at the Wright-Patterson Air Force Base on September 27, 1961, purchases from this engine manufacturer were to be made through the Air Force, although, in the case of awards pursuant to formal advertising, direct contracting was permitted. The Navy's requests to the Air Force to buy the items for the Navy were to be made on MIPR's.

Under the agreements reached at the meeting cited above, the Navy was responsible for determining whether noncompetitive procurement of these bearings was warranted and the Air Force was to accept the Navy's determination. However, the agreement provided also that, if a visual examination of the MIPR by the Air Force indicated that the items could be procured competitively, the Air Force would so advise the Navy.

Our examination was limited to six purchases of four types of aircraft engine bearings in a total amount of about \$1,145,000 which were purchased under two MIPR's issued to the Air Force by the Navy during fiscal year 1962.

The principal officials of the Departments of Defense and the Navy responsible for the administration of activities discussed in this report are listed in appendix I.

FINDINGS, CONCLUSIONS, AND RECOMMENDATIONS

Bearings purchased on a sole-source basis could have been obtained at lower prices through competitive purchase

Our review disclosed that during fiscal year 1962 the Navy purchased certain aircraft engine bearings on a noncompetitive basis at a cost of \$1,145,000, although it had been advised by the Air Force that the bearings could be bought for about one-third less if purchased competitively. Despite the savings obtainable through competitive procurement of these bearings, the Navy, which had asked the Air Force to obtain the parts for it, insisted upon noncompetitive purchase of the bearings from the manufacturer of the aircraft engines in which the bearings were to be used. After the Navy refused the Air Force proposal to buy the bearings competitively, the Air Force complied with the Navy's directions and ordered the bearings from the engine manufacturer at a price about \$408,000 higher than prior experience indicated would have been paid if the bearings had been bought competitively. The engine manufacturer paid the bearing producers about the same price for the bearings as the Air Force had paid for prior competitive purchases of the bearings from these same bearing producers, or about one-third less than the price the engine manufacturer charged the Navy.

We reviewed six procurements of four types of aircraft engine bearings which the Navy had determined should be purchased on a sole-source basis from the manufacturer of the aircraft engines on which the bearings were to be used. The purchases of these bearings were initiated by the Aviation Supply Office (ASO) for use on Navy aircraft; however, the Air Force had been assigned responsibility for purchase of all aircraft engines and engine parts from the manufacturer from which the Navy engines had been purchased. Accordingly, the Navy issued military interdepartmental purchase requests to the Air Force requesting that these bearings be purchased on a sole-source basis from the engine manufacturer. There were two MIPR's involved, each of which contained a request for three of the six purchases we reviewed.

After receiving the Navy's requests, the Air Force advised ASO that in the past it had purchased these identical parts at substantial savings by buying them on a competitive basis directly from the producers of these bearings. The Air Force further advised that delivery could be obtained more promptly if the award were made on a competitive basis. The Air Force, therefore, requested that ASO withdraw its requirement for award of a contract on a sole-source basis and permit the Air Force to purchase these bearings competitively from the bearing manufacturers in order that the substantial reduction in cost normally obtainable by competitive procurement might be obtained in these cases. Despite the savings in cost and delivery time potentially obtainable through competitive procurement of the bearings, ASO insisted that the Air Force make the purchase on a sole-source basis from the engine manufacturer. The Air Force proceeded on ASO's instructions and bought the items from the engine manufacturer without competition. On the basis of competitive prices previously paid by the Air Force, the Navy's action resulted in additional costs to the Government of about \$408,000.

The engine manufacturer's prices for these items were established under an existing contract in accordance with its general system of pricing items sold to the Government which is based upon negotiation in advance of a rate for overhead costs and profit to be used in pricing sales of all products to the Government for the ensuing year. To arrive at a selling price for parts such as these bearings, the rate is applied to the cost the engine manufacturer expects to incur in purchasing the parts from its subcontractors. Thus, these prices do not necessarily include only the costs actually incurred by the engine manufacturer in purchasing and handling specific parts sold to the Government. We are planning to give further consideration to the reasonableness of the prices charged by the engine manufacturer at a later date.

A summary of the additional costs which our review indicated were incurred by the Government on these purchases of engine bearings is presented below. The bearings are identified in this summary and in the body of the report by the last four digits of their Federal stock numbers. Complete Federal stock numbers for these bearings are shown in appendix III.

Item	Quantity	Unit price paid by the Navy	Unit price previously paid by the Air Force	Difference in price	
				Per unit	Total
MIPR-251288:					
Bearing 4182.....	858	\$91	\$53	\$38	\$32,600
Bearing 4184.....	1,922	158	97	61	117,200
Bearing 8486.....	924	85	57	28	25,900
MIPR-251465:					
Bearing 4182.....	2,599	91	53	38	98,800
Bearing 8486.....	2,388	85	57	28	66,900
Bearing 1386.....	1,284	191	139	52	66,800
Total.....					408,200

¹ Estimated on basis of price paid by the engine manufacturer to its supplier.

The purchases under the two military interdepartmental purchase requests are discussed separately below.

MIPR-251288.—The Aviation Supply Office sent MIPR-251288 dated October 30, 1961, to the Air Force asking that the Air Force purchase, among other items, 3,783 of bearing 4184, 3,037 of bearing 4182, and 3,986 of bearing 8486. These bearings were to be used for replacement purposes in the Navy's aircraft engine overhaul program. MIPR-251288 provided for purchase of these items on a sole-source basis from the aircraft engine manufacturer. The noncompetitive purchase of these items was justified on the basis (1) that the material was urgently needed to support fleet buildup and to prevent disruption of fleet operations and that purchase from the engine manufacturer would offer the earliest delivery and (2) that the information on which the Government has clear rights for use in repurchase of these items was insufficient to permit purchase from any source other than the engine manufacturer.

Upon receipt of the MIPR, the Air Force notified ASO that there seemed to be no reason why these items should not be purchased competitively since parts identical to those needed by the Navy had previously been bought by the Air Force through competitive awards and competitive procurement of these bearings was not barred by lack of rights. The Air Force stated that, based on prior Air Force experience, purchase of these items through competitive award would not delay receipt of these items but would actually permit the Navy to obtain the material in less time than would be required to purchase these bearings from the engine manufacturer. The Air Force further advised the Navy that competitive purchases of identical bearings from the companies that produced the bearings for the aircraft engine manufacturer had been made by the Air Force at a cost about one-third less than the Navy expected to pay. In addition, as further evidence of the extent of competition obtainable, the Air Force told the Navy that in making its purchases it had advertised for bids and that at least three qualified sources had submitted bids. Recent competitive Air Force purchases of identical bearings are shown in appendix III.

On the basis of its previous experience in purchasing these items, the Air Force asked the Navy to withdraw the condition attached to its order that the bearings be bought on a sole-source basis from the engine manufacturer. Despite the information provided by the Air Force of the potential savings available through competitive procurement, the Navy reaffirmed its decision that the bearings be bought from the engine manufacturer. The records indicate that the Navy's decision was based on its established policy that replacement parts for aircraft engines must be purchased from the engine manufacturer or a source otherwise approved by the Navy. In these cases the engine manufacturer was the only source the Navy had approved. The Navy did, however, reduce the quantities of the three bearings it had ordered to 2,122,¹ 858, and 924, respectively, pending further investigation into the capabilities of the vendors recommended by the Air Force.

Subsequently the Air Force made several additional requests to the Navy to permit the Air Force to buy these bearings competitively. On November 27, 1961, the Air Force advised the Navy that:

"The Air Force successfully procures bearings applicable to various aircraft engines direct from the end item manufacturer's approved sources. No unsatis-

¹ Although this quantity was ordered from the engine manufacturer, a partial termination of 200 was negotiated in June 1962, reducing the quantity purchased to 1,922.

factory reports received. The Air Force proposes to procure items on above MIPR from approved vendors. Vendors have complied with Air Force-Navy substantiation tests. Direct purchase from vendors will save approximately \$200,000. Sole-source procurement in this instance could jeopardize future competitive procurements. Request your sole source justification on above MIPR be withdrawn."

On December 1, 1961, Aviation Supply Office forwarded the above Air Force message to the Bureau of Naval Weapons and requested advice on the propriety of its sole-source justification. Despite the information from the Air Force of the substantial savings possible through competitive purchase of these bearings direct from approved bearings producers, the Director of the Power Plant Branch, Aircraft Division, of the Bureau of Naval Weapons refused to take advantage of this opportunity. Instead, he requested further information from the Air Force concerning the recommended vendors and, pending evaluation of this information, asked that the bearings be bought immediately according to ASO's instructions.

On December 19, 1961, the Air Force ordered the bearings requested by the Navy from the engine manufacturer, with deliveries to start about 9 months later in September 1962. The prices for these bearings were about \$175,700 higher than previously paid by the Air Force for the identical items.

Information obtained from the engine manufacturer indicated that it awarded subcontracts for the purchase of all three types of bearings to bearing producers from which the Air Force had previously purchased these bearings on a competitive basis. The prices paid by the engine manufacturer to the bearing producers were about the same as the Air Force had paid for the bearings on prior competitive purchases directly from the bearing producers, or about one-third less than was paid by the Navy to the engine manufacturer. The subcontracts for the purchase of bearing 4182 and bearing 4184 were awarded in February 1962, and deliveries to the engine manufacturer were to start 2 months later, in April 1962. A subcontract for the purchase of bearing 8486 was awarded in May 1962, and deliveries to the engine manufacturer were to start 3 months later, in August 1962. Deliveries to the Navy by the engine manufacturer were not scheduled to start until September 1962 or 9 months after the award of the contract in December 1961. Since the bearing producers were to start deliveries to the engine manufacturer 2 to 3 months after receipt of the orders, it seems evident that the Navy could have obtained these bearings more rapidly if the bearings had been purchased directly from the producers of the bearings.

MIPR-251465.—The Aviation Supply Office sent MIPR-251465 to the Air Force on February 5, 1962, ordering 2,599 of bearing 4182, 2,388 of bearing 8486, and 1,284 of bearing 7619,² along with certain other parts. The MIPR included a justification for the purchase of these parts from the engine manufacturer on the basis that (1) the parts were for replacement in equipment especially designed by the engine manufacturer and (2) the engine manufacturer has exclusive right to manufacture and market these items. The Navy's needs for bearing 4182 totaled 2,699 units, but it was able to get 100 units by transfer from the Air Force, therefore the Navy ordered only 2,599 of this bearing on the MIPR.

Air Force officials notified ASO, as they had done in November 1961, that these parts could be bought competitively from approved sources at savings to the Government of about one-third the amounts the Navy showed on the MIPR. They advised the Navy that there was sufficient manufacturing data in the Government's possession to permit purchase through competitive award and that the Air Force had in fact bought some of these bearings from the bearing producers at substantial savings to the Government. The Air Force also pointed out that it had not received any unsatisfactory reports on the performance of these bearings in the engines after installation. Accordingly, the Navy was again asked to withdraw its request for sole-source purchase of these bearings.

Despite the fact the Air Force again advised ASO of the substantial savings possible through competitive procurement, ASO, in conformity with the position taken by the Director of the Power Plant Branch of the Bureau of Naval Weapons, reaffirmed its justification for sole-source procurement from the engine manu-

² Subsequent to our review we were advised that the order for bearing 7619 was canceled and replaced by an order for the same quantity of an improved bearing. Navy stocks of bearing 7619 are to be used until exhausted. The improved bearing was also purchased from the engine manufacturer on a sole-source basis. The engine manufacturer in turn purchased these bearings from its suppliers. The Air Force had previously purchased bearings competitively from one of these suppliers and had received bids from the other substantially below the engine manufacturer's prices. Accordingly, it seems evident that savings on these improved bearings could also have been obtained through competitive purchase. Such savings are estimated at \$66,800 based on prices paid by the engine manufacturer to its suppliers. (See p. 7.)

facturer and asked that the contract be awarded immediately to permit timely delivery of the bearings and prevent disruption of fleet operations.

In accordance with the Navy's instructions, the Air Force ordered the bearings requested on this MIPR on March 28, 1962, from the aircraft engine manufacturer. Deliveries were to be completed in January 1963. On the basis of prior Air Force purchases of these bearings directly from the bearing producers, the unit prices paid on this purchase resulted in excessive costs to the Government of about \$232,500.

In May 1962 the engine manufacturer awarded subcontracts to two different bearing producers for the purchase of these three types of bearings. These bearing producers were two of the producers from which the Air Force had received bids in prior competitive purchases of these items. The prices paid by the engine manufacturer for these bearings were about the same as the Air Force had paid for the identical bearings on prior competitive purchases directly from the bearing producers, or about one-third less than was paid by the Navy to the engine manufacturer. Delivery of the bearings to the engine manufacturer was scheduled to start in August and to be completed by December 1962.

Recent competitive Air Force purchases of identical bearings are shown in appendix III.

We also found further evidence to show that the bearings bought competitively by the Air Force were usable by the Navy. One hundred of bearing 4182 transferred from the Air Force to the Navy were received at the Norfolk and Alameda Naval Air Stations in January and February 1962. Upon receipt the bearings were commingled in storage with a number of identical bearings that the air stations had on hand at that time. The overhaul and repair departments at these air stations withdrew bearings from storage for use in their engine overhaul operations. Since at the time of receipt the bearings received from the Air Force were mixed with the bearings then on hand, there is no way of determining which engines had Air Force-furnished bearings installed during overhaul and which engines received bearings purchased noncompetitively for the Navy. However, we could find no evidence that any of these bearings were unsatisfactory.

The bearings transferred from the Air Force to the Navy had been purchased by the Air Force directly from one of the bearing producers under contract AF09(603)36889. This supplier was one of the vendors which the Air Force referred to when it advised the Navy that the bearings could be bought competitively from the bearing producers at substantially reduced costs.

Agency comments

We brought our findings to the attention of the Departments of Defense and the Navy and requested their comments. At the same time we advised these agencies that we believe that the maximum practicable use of competition in Government procurement programs is basically sound and will promote efficiency and economy in both Government and industry. We advised them further that the Navy's insistence on noncompetitive purchase of these bearings seemed directly contrary to a basic policy of the Government that all qualified suppliers have an equal opportunity to compete for the Government's business and that it seemed evident that the Navy's action in refusing to permit competitive procurement of these bearings had resulted in the Government's incurring unnecessary cost.

The Department of Defense reply included separate comments by the Department of the Navy. A summary of the principal Department of Defense and Navy comments, together with our related views, is presented in appendix II. Briefly, we were advised that the Navy does not believe that the Government had or has a clear-cut, unlimited right to the technical data shown on the engine manufacturer's drawings or that the quality assurance provided under the procuring agency's (Air Force) inspection requirements would be adequate for the Navy's more vigorous operational requirements. Accordingly, the Navy advised that it did not consider that the decision to procure the bearings on a sole-source basis was wrong and wasteful of Government funds.

We found that the above comments of the Navy did not represent a reasonable interpretation of the facts in this case. In the first place, the Air Force found that there was no sound basis for the Navy's position that the Government did not have rights to the technical data needed to buy these bearings competitively. The Air Force, not the Navy, was responsible for buying the bearings, and the Air Force had taken up the matter of rights to technical data with the engine manufacturer, and the engine manufacturer had recognized the Government's right to purchase these bearings directly from the bearing producers. If the

Navy doubted that the Government had rights to the necessary technical data, it would appear that the Navy would have either questioned the Air Force on this matter or contracted the engine manufacturer. However, so far as we could determine, the Navy made no attempt to obtain clarification of this matter.

Secondly, the Navy's statement that the Air Force's inspections are not adequate appears to be directly contrary to the facts of the case. Before the Air Force made its first competitive purchase of these bearings, it made a thorough investigation into both the engine manufacturer's and its own inspection procedures. After this investigation, the Air Force concluded that the engine manufacturer's inspections of bearings were far less effective than the inspections performed by the Air Force inspectors. The Air Force's investigation and its conclusions are a matter of record. The Navy's position, on the other hand, appears to have been made without consideration of the relative effectiveness of the Air Force and engine manufacturer's inspections since no record of any Navy investigation of the adequacy of the Air Force's or the engine manufacturer's inspection procedures was disclosed by our review.

We also found further evidence to indicate that Air Force inspections were adequate. In the past, when both the Navy and the Air Force were buying these bearings from the engine manufacturer, the bearings for both services were subjected to the same type of inspection by the engine manufacturer. The Navy now contends that bearings bought for its use must be inspected more rigidly than bearings that the Air Force buys for its own use. The Navy's recent experience contradicts this contention since the majority of the bearings received by the Navy on transfer from the Air Force (see p. 175), none of which were inspected by the engine manufacturer, have been installed in naval aircraft engines and we found no evidence of unreliable performance.

After considering the facts cited above, there seems to be no reason to believe that satisfactory bearings could not have been obtained at a lower price through competitive procurement methods. Therefore, we disagree with the Navy's position that the procurement of these bearings was neither wrong nor wasteful of Government funds. The decision to purchase these bearings through the engine manufacturer was made even though it was known that they could be procured under the alternative procedures of the Air Force at substantially less cost. The decision was made without the evaluation and consideration of the Air Force procedure that was required, in our opinion, to determine whether the substantially greater cost was essential or justified. We believe that this case illustrates the need for a greater sense of individual responsibility for economy in Government operations. In our opinion the manner in which that responsibility is met should be considered when making personnel evaluations and management assignments.

Notwithstanding the Navy's position that its decision in this case was reasonable, the Navy has advised us that it is in the process of developing a method of procurement under which it will buy the bearings competitively from qualified bearing producers and pay the engine manufacturer only for the quality assurance services actually received. In this way the Navy hopes to obtain competitive prices without sacrificing the quality assurance services it deems necessary.

When we brought our findings to the attention of the Navy, we proposed to the Secretary of the Navy that a reevaluation be made of the Navy's position concerning the method and source of purchase of not only bearings but other replacement spare parts for aircraft engines. Although the Navy did not concur in our findings, it advised us that further study and agreement, particularly between the Air Force and the Navy, was desirable on the question of when spare parts must be obtained on a sole-source basis and when competitive procurement was feasible. Toward this end, the Navy proposed to the Air Force that a joint task force of high-level technical and procurement personnel be established to determine which engine bearings and other spare parts must be bought on a sole-source basis and which can be bought competitively. While the Air Force did not readily agree to the establishment of such a group, it indicated a willingness to discuss the problem further.

Conclusion and recommendations

The Navy's newly instituted program to buy these bearings competitively but to award a contract to the engine manufacturer for quality assurance services may result in some savings. However, the Air Force's experience on competitive purchase of bearings has shown that satisfactory, reliable bearings can be purchased without the services of the engine manufacturer. Therefore the quality assurance services of the engine manufacturer appear to be unnecessary. Accord-

ingly, we recommend that the Secretary of Defense direct that an evaluation and comparison be made of the inspection and quality assurance procedures of the engine manufacturer and the Air Force to determine whether there is any need to obtain the engine manufacturer's services. In addition, since the two military departments frequently use identical aircraft engine parts and frequently exchange such parts, we recommend also that the Secretary of Defense establish uniform standards for use in determining when not only bearings but also other replacement spare parts for aircraft engines can be purchased competitively. We further recommend that these standards provide that disagreements between the services on the method of purchase to be followed for specific parts be referred to the Department of Defense for resolution.

The failure to make the maximum use of competition in the procurement of aeronautical spare parts was previously reported to the Congress in a report titled "Noncompetitive Procurement of Aeronautical Replacement Spare Parts Within the Department of Defense," dated September 1961. The findings in that report were the subject of hearings before the Subcommittee for Special Investigations, Committee on Armed Services, House of Representatives, in May, June, and July, 1961. Subsequently, we were advised that the Department of Defense had supplemented previous statements of policy and that new directives were being issued aimed toward obtaining optimum use of competition in the purchase of such parts.

The purchases cited in this report as well as other cases reviewed by this Office indicate that, despite the statements of policy and directives issued by the Department of Defense, the Navy has not taken effective action to make the maximum use of competition in the procurement of aeronautical spare parts. Also, this case demonstrates that the issuance of directives and policy statements cannot be relied upon to assure that the necessary steps are taken. Accordingly, we recommend that the Department of Defense maintain close surveillance over Navy purchasing practices to assure that the fullest use of competition is made in the procurement of aeronautical spare parts.

The Navy was simultaneously buying and disposing of identical aircraft engine bearings

The Naval Air Station at Norfolk was disposing of 936 new, unused engine bearings at the same time that Aviation Supply Office (ASO) was buying additional stocks of the identical bearings. The purchase price of an equivalent number of bearings was \$105,000 more than the proceeds from disposal of the 936 bearings. Although \$57,000 of the additional cost may be attributed to the Navy's failure to utilize competition to obtain the best prices available for these bearings, the remaining \$48,000 of unnecessary cost was the result of the Navy's buying a new supply of these bearings instead of locating and using the bearings it already had on hand in surplus storage.

In December 1960, ASO authorized the Norfolk Naval Air Station to dispose of all the bearing 4184 it had on hand in excess of 1,000. Disposal of these bearings had been authorized by a group of ASO personnel on temporary duty at the Norfolk Naval Air Station in December 1960. Shortly thereafter, in March 1961, the air station transferred 936 of bearing 4184 in new, unused condition from active stocks to the air station's disposal area. The bearings were reported through the Armed Forces Supply Support Center (AFSSC, now the Defense Logistics Service Center) to all services on excess personal property listings as being available without reimbursement through the 90-day period ended September 1, 1961. The bearings were not claimed by any of the other services during this period and thus were removed from AFSSC's lists of available material. Therefore, if one of the services had needed this particular item after September 1, 1961, it would probably have been unaware that any were available in one of the Navy's surplus storage areas.

As described on page 7, ASO, in October 1961, initiated a MIPR for the purchase of 3,783, later reduced to 2,122, of the identical bearings. The 936 bearings were on hand in the air station disposal area during the entire period that ASO was exchanging correspondence with the Air Force concerning the method of purchase of the bearings discussed previously. As a matter of fact, the bearings were not sold and transferred from the surplus storage area until March 1962, or 5 months after ASO issued its MIPR to the Air Force.

In February 1962 the 936 bearings in surplus storage were advertised for sale along with numerous other surplus aircraft parts. The highest bid received and the price at which they were sold in March 1962 was \$46.12 each, or \$43,168 for the total quantity. The 936 identical bearings which the Navy bought cost

about \$148,000 or about \$105,000 more than the Navy realized on this surplus sale. Of this \$105,000 of unnecessary cost about \$57,000 was due to the Navy's failure to obtain competitive prices on the bearings it bought. The remaining \$48,000 of unnecessary cost was the result of the Navy's buying a new supply of these bearings instead of locating and using the bearings it had on hand in surplus storage.

Agency comments

The Navy advised us that, with respect to the simultaneous buying and disposing of material, the problem was discussed by the Assistant Secretary of Defense (Installations and Logistics) in a letter to the General Accounting Office dated May 29, 1962, in reply to a draft report on that subject. The final report on that review was issued to the Congress on August 31, 1962 (B-146748), and was titled, "Review of the Utilization of Excess and Surplus Personal Property Within the Department of Defense." The Department of Defense proposed certain corrective measures as a result of the findings presented in that report. While these corrective measures were not scheduled to be fully implemented until about December 1963, we were advised by the Assistant Secretary of Defense (Installations and Logistics), on November 5, 1962, that a part of this plan had been implemented and that selected military inventory control points, including the Aviation Supply Office, are now participating in a program for mechanized screening of material requirements against material declared excess. The Navy advised us also that action had been taken to reemphasize to ASO personnel the need for strict compliance with existing ASO procedures requiring the screening of lists of material authorized for disposal during the preceding 12 months before purchase action is initiated.

Conclusion

We believe that the revised Department of Defense procedures, if carried out effectively, should provide reasonable assurance that, in the future, disposals of the type discussed above will not occur. We plan to give further consideration to the effectiveness of these procedures as a part of our continuing review of the activities of the military agencies.

Principal officials of the Departments of Defense and the Navy responsible for administration of activities discussed in this report

	Tenure	
	From—	To—
DEPARTMENT OF DEFENSE		
Secretary of Defense: Robert S. McNamara.....	January 1961.....	Present.
Deputy Secretary of Defense: Roswell L. Gilpatric.....do.....	Do.
DEPARTMENT OF THE NAVY		
Secretary of the Navy:		
John B. Connally.....do.....	December 1961.
Fred Korth.....	January 1962.....	Present.
Under Secretary of the Navy: Paul B. Fay, Jr.....	February 1961.....	Do.
Chief, Bureau of Naval Weapons: Rear Adm. Paul D. Stroop....	December 1959.....	Do.
Director, Powerplant Branch, Bureau of Naval Weapons:		
Capt. J. W. McConnaughay.....	June 1959.....	August 1962.
Capt. L. P. Smith.....	August 1962.....	Present.
Commanding Officer, Aviation Supply Office, Philadelphia, Pa:		
Rear Adm. J. M. Lyle.....	June 1959.....	December 1961.
Capt. J. V. Koch.....	December 1961.....	February 1962.
Rear Adm. H. F. Kuehl.....	February 1962.....	Present.

APPENDIX II

SUMMARY OF DEPARTMENT OF DEFENSE AND DEPARTMENT OF THE NAVY
COMMENTS TOGETHER WITH GENERAL ACCOUNTING OFFICE VIEWS THEREON

The findings contained in this report were furnished to the Department of Defense for comment. The Deputy Assistant Secretary of Defense (Procurement) replied by letter of October 3, 1962, which letter enclosed a statement on the Navy's position on our findings. A summary of the principal comments contained in that letter and our related views follow:

The Navy advised that it considered the inspection system of the engine manufacturer to be more effective than the inspection procedures in effect at the bearing vendors' plants. It was the opinion of the Navy that the continuing quality assurance services performed by the engine manufacturer were not cursory and that it was the type of continuing inspection that is necessary and vital to maintain the degree of reliability essential for the Navy's type of fleet operation.

During the period that the Air Force was negotiating with the engine manufacturer to obtain the right to purchase aircraft engine bearings competitively, it made extensive investigations into the engine manufacturer's inspection procedures. It was the considered opinion of the Air Force that the Air Force quality assurance inspections conducted at the vendors' plants were more rigid than those performed by the engine manufacturer. The Air Force concluded also that the inspection performed by the engine manufacturer on the bearings after receipt at its plant, on a sampling basis, was far less effective than the inspection procedures followed by Air Force inspectors at the bearing vendors' plants. Moreover, the Air Force noted instances in the past wherein bearings purchased from the engine manufacturer had been shipped directly from the vendors' plants to Air Force installations. The Air Force also reported that an engineering analysis conducted on bearings purchased direct from bearing producers revealed that they were equal in quality to those purchased from the engine manufacturer.

The Air Force position was based on the premise that purchases of replacement spare parts directly from the manufacturer could be safely made after the equipment on which the parts were used had been in use long enough to show stability of performance and provide assurance that engineering changes would be minimal. The premise was to be applied to cases involving vendors whose product had been approved and whose quality control procedures had been deemed adequate by Air Force personnel. Thus, the Air Force contends that in this case purchase of replacement spare parts directly from approved vendors is permissible since the two engines in which the bearings discussed in this report are used have been in service for many years.

The Navy stated that drawings in its possession for the bearings discussed in our report carry a legend to the effect that the information on the drawings is proprietary in nature and cannot be used except by written permission of the engine manufacturer. The Navy contends that it cannot ignore the existence of such restrictive markings and that this knowledge influenced the Navy's decision to require sole-source purchase of the bearings in question.

Prior to August 1960, the engine manufacturer had been claiming proprietary rights on these bearings and had advised the bearing producers that they were not free to manufacture the bearings for direct sale to the Government. However, in August 1960, after considerable correspondence between the Air Force and the engine manufacturer, the engine manufacturer advised the Air Force that it would no longer object to the bearing producers quoting directly to the Air Force for replacement bearing orders and that all the approved bearing vendors had been so notified. Thus, since the Air Force was the procuring agency for the bearings in question and since it had made arrangements with the engine manufacturer to permit competitive purchase of bearings, there seems to be no sound basis for the Navy's position on the Government's right to purchase these bearings competitively.

The Navy admits that no specific cases can be shown to pinpoint the fact that antifriction bearings procured on a competitive basis are unsatisfactory. However, the Navy contends that there is ample evidence to indicate that the Navy's anti-friction-bearing failure rate for the engines on which the bearings discussed in this report are used is substantially below the rates experienced by other military services operating similar equipment.

Our findings support the Navy's statement that it knows of no specific cases in which competitively procured bearings were not satisfactory. However, in our

opinion, the Navy's statement that its bearing failure rate³ is lower than that of other services using similar equipment is misleading. The Navy's statement is based on Air Force correspondence dated February and June 1961 which states that the failure rate for the Air Force was about 2 percent for one engine and about 6½ percent for the other engine. Since the first deliveries of bearings purchased competitively from bearing producers were received by the Air Force after the period covered by the Air Force correspondence, the failure rates cited for the Air Force apply only to bearings furnished by the Navy's desired source, the engine manufacturer. Moreover, according to the Air Force, the majority of reported failures have been due to installation procedures, and whether the purchase of bearings was from engine manufacturers or from bearing producers will not alter this situation.

More recently, the Air Force has experienced much lower failure rates. For instance, the Air Force failure rates cited in the Navy letter were 2 percent for one engine and 6½ percent for the other engine. We examined the Air Force records for a later period—the 12-month period ending September 1962—to determine the failure rate of the Air Force during that period on the four bearings discussed in this report. One thousand two hundred and twelve overhauls of the engine model in which three of the four bearings are used were reported during the 12-month period. In only five instances, or less than one-half of 1 percent, was the failure of one of these bearings reported as the primary cause of overhaul. For 727 engine overhauls reported in which the fourth bearing is required, the failure of this bearing was reported as being the primary cause of overhaul in only 2 instances, or less than one-third of 1 percent. These rates were lower than the rates experienced by the Navy as cited in their reply to us. The extremely low failure rate through September 1962 would seem to indicate that the Air Force method of procurement and inspection assures the Air Force of receiving satisfactory, reliable aircraft engine bearings.

In addition, the bearings received by the Navy through transfer from the Air Force were not inspected by the engine manufacturer. Most of these bearings have been installed in naval aircraft engines, and we found no evidence of unreliable or unsatisfactory performance of these bearings.

The Navy does not believe that its decision to procure bearings on a sole-source basis was wrong and wasteful of Government funds. Nevertheless, the Navy has advised that it is in the process of developing a method of procurement under which it will only pay for the actual services received, thereby removing any doubt that the Government will be paying excess profits to the engine manufacturer. The Navy's plan envisions the purchase of bearings competitively from approved vendors with the engine manufacturer providing quality assurance by means of a separate contract. The Navy contends that this plan would insure that only new and improved bearings would be procured and delivered to the Navy and that the engine manufacturers would be induced to retain engineering interest in the engine components.

While the Navy's plan may result in somewhat lower costs for aircraft engine bearings, there is some question as to whether or not such a type of contract is needed. Experience of the Air Force since it started buying these bearings directly from approved vendors would indicate that satisfactory bearings can be bought without assistance from the engine manufacturer. Moreover, as discussed on page 179, after evaluating the engine manufacturer's inspection procedures for bearings received at its plant, the Air Force concluded that such inspection was cursory and not really an essential service. The Air Force felt that its own inspectors could adequately police the vendors' manufacturing processes and give assurance that only satisfactory bearings would be accepted by the Air Force. Thus it appears that, at least insofar as the bearings discussed in this report are concerned, the Air Force has been able to get a satisfactory product without the services of the engine manufacturer, and the same would appear to be true insofar as the Navy is concerned.

The Navy advised that the bearings discussed in this report are used in engines which are installed in single-engine combat-type aircraft operated from aircraft carriers, while the Air Force uses these bearings in multiengine, land-based aircraft. The Navy states that its type of operation imposes severe limitations as to acceptable risks that may be taken relative to procuring these bearings from sources other than the engine manufacturer.

³ The failure rate represents the number of aircraft engine overhauls necessitated primarily by the failure of a bearing.

The Navy's position on this matter does not seem to be reasonable in light of the facts regarding the purchase and use of these bearings. These bearings are not produced by the engine manufacturer. The engine manufacturer buys them from qualified suppliers for delivery to the Navy or any other purchaser. Thus, regardless of the method the Navy follows in buying its bearings; that is, competitive or sole source, they will be produced by a bearing manufacturer, not the engine manufacturer. Further, we have been advised that in the past, when both the Air Force and the Navy were buying these bearings from the engine manufacturer, they were given the identical inspection by the engine manufacturer. There is no evidence to indicate that the engine manufacturer subjected bearings for the Navy to any more rigid inspection than that given to the identical bearings being delivered to the Air Force.

The Navy also advised that the Federal Aviation Agency (FAA) does not authorize certified commercial airlines to buy their antifriction bearings from other than the engine manufacturer for reasons of passenger safety.

We discussed this point with FAA officials and were told that the Navy's statement is erroneous. If a commercial airline desires to install a bearing not furnished by the engine manufacturer, it must substantiate to FAA that the substitute bearing has been subjected to the same endurance tests, has the identical properties, and has the same dimensions and tolerance as the bearing furnished by the engine manufacturer. If this is done to FAA's satisfaction, we were advised, the FAA would then issue a supplemental certificate for this particular part.

The Navy has stated that, while the purchase of bearings from other than the engine manufacturer would reduce the cost of the bearings, it would increase the costs of other work performed by the engine manufacturer by the larger allocation of overhead costs to the other work. The Navy contends that any net savings to the Government are undeterminable.

We do not agree with the Navy's statement. While the difference in price between sole source and competitive purchase of these bearings might not be saved entirely, it seems likely that much of this difference would be a saving to the Government. The engine manufacturer's overhead costs are allocated to commercial as well as Government work. Since about one-fifth of the business done by the division which handles bearings is for commercial suppliers, it would logically follow that at least one-fifth of the overhead costs formerly allocated to the bearings would be reallocated to commercial work.

In any event, it does not appear reasonable for the Government to pay more than necessary for an item it requires merely to afford a contractor a broader base on which to distribute overhead, unless it is established that the Government will realize concrete savings from such action.

APPENDIX III

Competitive purchase of identical aircraft engine bearings by the Air Force

Item and date	Vendor	Number of bidders	Contract No.	Quantity	Unit price	Delivery time (days)
Bearing 3110-605-4182:						
Jan. 16, 1961.....	A	4	AF09(603)36889....	4,500	\$52.90	180
Oct. 28, 1960.....	B	4	AF09(603)36462....	500	61.78	126
Bearing 3110-605-4184: Jan. 16, 1961.	A	4	AF09(603)36889....	1,000	96.83	180
Bearing 3110-540-8486: Apr. 27, 1962. ¹	A	3	AF09(603)40436....	525	56.85	120
Bearing 3110-593-7619: ²						
Mar. 30, 1962.....	B	4	AF09(603)40176....	1,100	111.67	180
Jan. 18, 1961.....	A	3	AF09(603)36845....	2,700	123.54	180

¹ The Air Force was in the process of receiving and reviewing bids for this award during the period it was corresponding with the Navy concerning the Navy's sole-source procurement justification.

² As explained in the footnote on p. 11, this bearing was not purchased by the Navy. Instead, the Navy bought bearing 3110-566-1386 which superseded bearing 7619.

APPENDIX 5

LEGAL BACKGROUND AND DOD/GSA AGREEMENTS

TITLE II—PROPERTY MANAGEMENT (P.L. 152, 81st Cong.)

PROCUREMENT, WAREHOUSING AND RELATED ACTIVITIES

SEC. 201. (a) The Administrator shall, in respect of executive agencies, and to the extent that he determines that so doing is advantageous to the Government in terms of economy, efficiency, or service, and with due regard to the program activities of the agencies concerned—

(1) prescribe policies and methods of procurement and supply of personal property and nonpersonal services, including related functions such as contracting, inspection, storage, issue, property identification and classification, transportation and traffic management, management of public utility services, and repairing and converting; and

(2) operate, and, after consultation with the executive agencies affected, consolidate, take over, or arrange for the operation by any executive agency of warehouses, supply centers, repair shops, fuel yards, and other similar facilities; and

(3) procure and supply personal property and nonpersonal services for the use of executive agencies in the proper discharge of their responsibilities, and perform functions related to procurement and supply such as those mentioned above in subparagraph (1): *Provided*, That contracts for public utility services may be made for periods not exceeding ten years; and

(4) with respect to transportation and other public utility services for the use of executive agencies, represent such agencies in negotiations with carriers and other public utilities and in proceedings involving carriers or other public utilities before Federal and State regulatory bodies:

Provided, That the Secretary of Defense may from time to time, and unless the President shall otherwise direct, exempt the National Military Establishment from action taken or which may be taken by the Administrator under clauses (1), (2), (3), and (4) above whenever he determines such exemption to be in the best interests of national security.

THE WHITE HOUSE,
Washington, July 1, 1949.

To All Executive Agencies:

By virtue of the authority vested in me by section 205(a) of the act entitled "An act to simplify the procurement, utilization, and disposal of Government property, to reorganize certain agencies of the Government, and for other purposes," approved June 30, 1949 (the Federal Property and Administrative Services Act of 1949) it is hereby directed that:

1. In cooperation with other interested agencies, the Administrator of General Services shall institute studies and surveys to determine the extent to which existing policies, procedures, and directives heretofore promulgated and remaining in force under section 501 of the act, should be modified or revoked in the interest of promoting greater economy and efficiency in accomplishing the purposes of this act. Careful attention shall be given to determining the degree of centralization in the General Services Administration to be attained in the performance of the functions involved. When these studies and surveys have been completed and after consulting with the interested agencies, the Administrator shall prescribe such regulations as may be necessary to implement the determinations resulting from such studies and surveys.

2. After consultation with the Bureau of the Budget and other executive agencies, and also with the General Accounting Office in respect of such matters as may be appropriate, including matters affecting its functions under sections 205(b) and 206(c) of the act, and at the earliest possible date, the Administrator of General Services shall establish such standards, prescribe such regulations, and prepare and issue such manuals and procedures as may be necessary to guide all executive agencies in ascertaining whether their operations in the field of property and records management

are efficient and economical as well as consistent with established Government policies.

3. In accordance with directives to be issued by the Administrator of General Services, each executive agency shall promptly institute surveys to determine excess personal property and that portion of excess real property, including unimproved property, under their control which might be suitable for office, storage, and related facilities, and shall promptly report to the Administrator as soon as each survey is completed.

4. Each executive agency shall carefully plan and schedule its requirements for supplies, equipment, materials, and all other personal property in order that necessary stocks may be maintained at minimum levels and high-cost small-lot purchasing avoided.

5. Under section 201(c) of the act, executive agencies are permitted to apply exchange allowances and proceeds of sale in payment of property acquired. The Administrator shall promptly prescribe regulations specifying the extent to which executive agencies may exercise this authority, and pending the issuance of such regulations, no executive agency shall exercise this authority except to the extent permitted by, and in accordance with the provisions of, statutes in force prior to the taking effect of this act.

6. Section 502(d) of the act provides that certain programs and functions now being carried on by various executive agencies shall not be impaired or affected by the provisions of the act. However, the attention of these agencies is called specifically to the purposes of this legislation and they shall, insofar as practicable, procure, utilize and dispose of property in accordance with the provisions of the act and the regulations issued thereunder in order that the greatest overall efficiency and economy may be effected. These same agencies shall also cooperate with the Administrator of General Services in the making of surveys of property and property management practices and in the establishment of inventory levels as provided in section 206(a) (1) and (2) of the act.

HARRY S. TRUMAN.

THE WHITE HOUSE,
Washington, July 1, 1949.

To the DIRECTOR OF THE BUREAU OF THE BUDGET, THE SECRETARY OF DEFENSE,
AND THE ADMINISTRATOR OF GENERAL SERVICES:

By virtue of the authority vested in me by section 205(a) of the act entitled "An act to simplify the procurement, utilization and disposal of Government property, to reorganize certain agencies of the Government, and for other purposes," approved June 30, 1949 (the Federal Property and Administrative Services Act of 1949), it is hereby directed that:

1. Pending determinations made in the course of the studies hereinafter directed to be instituted the several departments and agencies constituting the National Military Establishment shall continue to procure through the Administrator of General Services such supplies, materials, equipment, and other personal property, and have performed by the Administrator such related functions of the types specified in section 201(a)(1) of the Federal Property and Administrative Services Act of 1949 as were customarily procured or performed for the departments and agencies of the National Military Establishment by the Bureau of Federal Supply prior to the taking effect of said act. Until further order of the President, the Secretary of Defense shall not, without the prior approval of the President, issue any order or directive exempting the National Military Establishment, in accordance with the proviso in section 201(a) of the Federal Property and Administrative Services Act of 1949, from action taken or to be taken by the Administrator of General Services under said section.

2. The Administrator of General Services, the Secretary of Defense, and the Director of the Bureau of the Budget (1) shall forthwith undertake, and diligently pursue, studies aimed at developing areas of understanding with respect to the extent to which the National Military Establishment should be exempt from the jurisdiction of the Administrator under sections 201 and 206 of the Federal Property and Administrative Services Act of 1949, and (2) shall present any appropriate recommendations to the President.

HARRY S. TRUMAN.

GENERAL POLICY STATEMENT ON DEVELOPMENT OF AREAS OF UNDERSTANDING
 BETWEEN GENERAL SERVICES ADMINISTRATION AND DEPARTMENT OF DEFENSE
 PURSUANT TO PUBLIC LAW 152, 81ST CONGRESS

The President's memorandum of July 1, 1949, to the Secretary of Defense, Administrator of General Services, and the Director of the Bureau of the Budget, directed that areas of understanding be developed between the General Services Administration and the Department of Defense with respect to the application of the Federal Property and Administrative Services Act of 1949 (Public Law 152, 81st Cong.). Considerable progress has been made in certain areas. Completion of the task will be expedited by acceptance of basic principles.

It is a necessary part of our national defense to keep appropriations within bounds. Our economy requires it; the President and the Congress rightfully expect it consistent with the fulfillment of primary missions. The preservation of our nonrenewable resources from unnecessary exploitation in our time will mean that future generations may also have the substance of defense.

Modern war is total war involving all agencies and segments of our economy—farmers, factory workers, professional groups, as well as the traditional military forces. Within the Government, many, if not all, civilian agencies have wartime functions, and a careful planning and providing for their needs is essential to a consideration of the whole problem.

The accomplishment of this task requires detailed examination of many areas of effort and assignment of tasks to both military and nonmilitary agencies. While it is recognized that the great bulk of military procurement in both peacetime and wartime will continue to be handled by the military departments themselves, nevertheless there are certain procurement areas and other areas of effort, such as certain parts of surplus property disposal, real property management, traffic management, etc., where it will be important during peace and war for the military departments to continue to depend upon the General Services Administration. Because effective military supply planning covers both current peacetime operations and wartime functions, it appears essential that if sound planning is to be done the military departments must have assurance that the General Services Administration will continue in existence in wartime and will be protected against undue inroads by selective service. To develop "areas of understanding" for peacetime use only would greatly complicate the problem.

In a war economy, especially, each item should be considered as being a scarce item. Transportation, storage, manpower, and other scarce components are involved in producing items which may be fabricated from abundant basic materials. We are a have-not Nation with respect to some materials and are fast reaching that status with respect to some once-abundant materials.

All agency requirements in peace and in war should be coordinated so as to constitute a minimum impact upon the Nation's economy.

The military and nonmilitary supply systems must be coordinated at both the policy and operation levels so that the constituent agencies will not compete against each other for their requirements thus creating artificial scarcities and inflationary prices. This objective can best be attained by considering all phases of Federal Government supply as a part of an overall supply management concept, rather than by isolating the segments and making each the object of special administrative or statutory attention. To accomplish this end there will be required wholehearted cooperation between the military and the civilian agencies.

Every effort will be made by the undersigned to expedite the development of areas of understanding within the framework of the above policies.

JANUARY 12, 1950.

LOUIS JOHNSON,
Secretary of Defense.

JANUARY 11, 1950.

JESS LARSON,
Administrator, General Services.

JANUARY 10, 1950.

FRANK PACE, JR.,
Director, Bureau of the Budget.

THE WHITE HOUSE,
Washington, June 8, 1954.

TO: THE DIRECTOR OF THE BUREAU OF THE BUDGET, THE SECRETARY OF DEFENSE,
the ADMINISTRATOR OF GENERAL SERVICES:

By virtue of the authority vested in me by section 205(a) of the Federal Property and Administrative Services Act of 1949, as amended (40 U.S.C. 481 (a)), there is hereby revoked the memorandum of the President dated July 1, 1949, and directed to the Director of the Bureau of the Budget, the Secretary of Defense, and the Administrator of General Services, copy of which appears on page 108 of the pamphlet of the General Services Administration dated October 1952 and entitled "Federal Property and Administrative Services Act of 1949, as amended."

DWIGHT D. EISENHOWER.

HOUSE OF REPRESENTATIVES,
OFFICE OF THE MAJORITY LEADER,
Washington, D.C., February 13, 1960.

Hon. DWIGHT D. EISENHOWER,
The White House, Washington, D.C.

DEAR MR. PRESIDENT: For many years I have been interested in the possibilities of making large economies in the Government in the areas of common supply and services which consume a large portion of the annual budget and where such great duplication occurs. It will be recalled that the McCormack-Curtis amendment to the Department of Defense Reorganization Act of 1958 vested the Secretary of Defense with great authority to bring about necessary improvements in the Department of Defense. I believe that this amendment conforms to your own thoughts on the subject.

However, in addition to the need for improvement in the DOD, there is need for improvement in those areas which are common to both the civilian and military branches of the Government. This need was recognized in the passage of the Federal Property and Administrative Services Act of 1949, Public Law 152, 81st Congress. This act was developed jointly by the Budget Bureau, the expenditures committees of both Houses of Congress, and the First Hoover Commission, and it had great public support.

The most difficult and perhaps the most important part of the act concerned the relationships between the military agencies and a new General Services Administration. After many months of negotiation, section 201(a) was developed which gave the Administrator of the new agency certain authorities in common areas, but with the proviso that the Secretary of Defense might exempt the Defense Department from the Administrator's actions unless the President otherwise directs.

It now appears that GSA is able to handle much more common supply and service work for the entire Government, but it requires a stable foundation upon which to operate without the prospect of the present or a future Secretary of Defense exempting the DOD from the application of the GSA programs.

I am therefore of the opinion, in which many others join me, that it would be advisable if the Secretary of Defense were directed not to exempt the DOD from programs determined to be Government-wide in scope, but to work cooperatively in the common interest.

Your reaction to this proposal will be greatly appreciated.

Very respectfully yours,

JOHN W. MCCORMACK.

HOUSE OF REPRESENTATIVES,
OFFICE OF THE MAJORITY LEADER,
Washington, D.C., May 31, 1960.

Hon. DWIGHT D. EISENHOWER,
The White House, Washington, D.C.

DEAR MR. PRESIDENT: Reference is made to my letter of February 13, 1960, concerning the advisability of directing the Secretary of Defense not to exempt the Department of Defense from provisions of section 201(a) of the Federal Property and Administrative Services Act in connection with Government-wide supply and service programs.

Since I have not received an answer to my letter and a number of important supply and service programs affecting both the Department of Defense and

General Services Administration are under consideration I would appreciate learning of your attitude concerning my proposal. I consider that large economies with greater efficiencies will ensue from better management of the Government's supply and service activities but solutions are not possible without the necessary integration as between civilian and military branches of the Government.

Sincerely yours,

JOHN W. McCORMACK, *Majority Leader.*

THE WHITE HOUSE,
Washington, June 16, 1960.

HON. JOHN W. McCORMACK,
House of Representatives, Washington, D.C.

DEAR MR. McCORMACK: This is in further response to your letter to the President, dated February 13, in which you proposed that the Secretary of Defense be directed not to exempt the Department of Defense from programs determined to be Government-wide in scope.

As your letter indicates, cooperation among agencies is essential for effective and economical performance of Government-wide programs such as the management of common supply items used by civilian as well as military agencies. The administration agrees with you that sustained progress can be accomplished more effectively if policies and administrative arrangements are clearly understood and formalized for continuity, especially during periods when continuity is difficult due to unavoidable turnover among top officials and their principal staffs. The Director of the Bureau of the Budget has been asked to take the lead for developing on a more permanent basis the continuing working arrangements for joint cooperative efforts to improve the management of supply programs. As you know, a similar approach involving the Treasury Department, the General Accounting Office, and the Bureau of the Budget has been helpful in dealing with Government-wide fiscal and accounting problems.

A directive somewhat along the lines you have proposed was issued in 1949. Undoubtedly it served a useful purpose while the newly created General Services Administration was being established. That directive was rescinded in 1954, however, because it was not accomplishing the objective of improving inter-agency cooperation. Since then, effective working relationships have been established between the Department of Defense and the General Services Administration and there has been a steady and substantial increase in the volume of supplies furnished to the Armed Services by the General Services Administration. The rate of progress in that respect has been more substantial since 1954 than at any time previously. The volume for the current fiscal year will be about $4\frac{1}{2}$ times the volume in 1954.

During the past few months, the Department of Defense and the GSA have been actively negotiating for a much more substantial transfer of supply responsibility for "common use" supplies to the GSA. An effective working agreement has been reached and the agencies are proceeding with detailed plans and schedules for orderly transfer of supply responsibility for the selected items. Enclosed is a copy of the agreement under which the transfer of responsibility is moving ahead. (Sup. 198)

Your longstanding interest and constructive approach toward these problems are appreciated.

Sincerely,

GERALD D. MORGAN,
The Deputy Assistant to the President.

POLICY STATEMENT RE ASSIGNMENT OF RESPONSIBILITY TO GENERAL SERVICES ADMINISTRATION FOR PROCUREMENT, STORAGE AND DISTRIBUTION OF COMMON USE CIVILIAN TYPE ITEMS FOR THE DEPARTMENT OF DEFENSE

On January 12, 1950, the Secretary of Defense, the Administrator of General Services, and the Director of the Bureau of the Budget promulgated a general policy statement on the development of areas of understanding between General Services Administration and the Department of Defense pursuant to Public Law 152. Since establishing the general principles set forth in this statement substantial progress has been made in many areas at both the policy and operational levels.

On July 17, 1951, Department of Defense Directive No. 250.01-1 was issued containing the following paragraph which relates to DOD-GSA supply relationships:

"The Munitions Board in conjunction with the military departments shall immediately initiate the actions required to insure that (1) Common administrative supplies and equipment are purchased through the General Services Administration to the maximum extent practicable, and (2) requirements for such items are accurately determined and furnished to the General Services Administration sufficiently in advance to permit that agency to do planned and intelligent buying and stocking."

In continuation of joint efforts in the supply field, a study entitled "Distribution Survey of Certain Selected Civilian Type Common Use Items" was undertaken by a task group lead by representatives of the Munitions Board and the General Services Administration assisted by representatives of each of the military services. After reaching agreement among the representatives of the agencies and services concerned, the task group submitted its final report on September 2, 1952, containing the recommendations listed below:

"(1) That the general policy statement on development of areas of understanding between the General Services Administration and the Department of Defense, signed January 11 and 12 1950, be amended to include the policy that the distribution responsibility for all items directly related to military forces and the effectiveness thereof be retained by the military services.

"(2) That department heads direct the appropriate stock control points within the military services to determine which items of supply are not directly related to military forces, first priority to be given the 124 items included in this study.

"(3) That the General Services Administration designate points of contact to work with the appropriate military stock control points in connection with the assumption of supply distribution for those items eliminated from the military distribution system.

"(4) That in the interest of time and minimum disruption of logistics supply operations, initial implementation of the operating plan to assume distribution supply support by the Federal Supply Service be developed with each service rather than on a Department of Defense basis.

"(5) That it be recognized that the determination of suitability of any item for elimination from a military distribution system must be dependent on a specific examination by the military service of the item concerned.

"(6) That the Armed Services Procurement Regulations be appropriately revised to establish the Federal Supply Service as the mandatory source of supply for all civilian-type items, listed in the Federal Supply Service Stores Stock Catalog, authorized for local procurement (including those to be eliminated from military distribution systems).

"(7) That the Armed Services Procurement Regulations be revised to provide for the consideration of the Federal Supply Service in the assignment of single service procurement responsibilities when civilian-type common-use items are involved.

"(8) That each military service screen its list of customers, now receiving supply support under centralized inventory control but whose responsibility is almost purely administrative in nature, with the view of assigning supply support thereof to a Federal Supply Service Center.

"(9) That the applicable agencies of the Department of Defense take cognizance of the provisions of conclusions 3, 14, and 15."

In implementation of the foregoing recommendations the General Services Administration is working directly with the military services concerned under the monitorship of the Munitions Board in the following areas:

(1) A proposed revision to the Armed Services Procurement Regulations making the use of Federal Supply Service stores' facilities mandatory upon the military for items authorized for local procurement is in process at the Munitions Board.

(2) The several services are presently screening their depot-type items with a view to eliminating them from the military supply distribution systems and transferring supply responsibility for such items to the General Services Administration. Initial listings together with the latest usage data, stock on hand, etc., will be presented to the General Services Administration within the immediate future.

(3) Details are being developed with respect to those items for which the General Services Administration should be established as the single procurement agency for both the military and civilian establishments.

(4) The General Services Administration and military standards organizations are working in the field of standardization for those items now under consideration.

In order to provide a sound basis for continuing progress of current projects leading to the complete coordination of the military and nonmilitary supply systems through assignment of responsibility for procurement, storage, and distribution of common use civilian-type items to the General Services Administration, a further expression of policy agreement is now deemed advisable. In this regard, agreement has been reached on the following general principles:

(1) The transfer of supply assignment functions to the General Services Administration shall be on a progressive basis in keeping with the capabilities of that agency to absorb the increased workload.

(2) As items or classes of supply are transferred, military services shall be informed by appropriate directive of the assignment of supply support responsibilities to the General Services Administration.

(3) When a supply function is transferred from an agency of the Department of Defense to the General Services Administration, records, property, personnel, appropriations, allocations, and other funds of such agency will likewise be transferred in accordance with "Principles To Be Applied by the Bureau of the Budget in Approving Transfers Under Sections 107(b) and 205(f) of the Federal Property and Administrative Services Act." (Attached—tab A.)

The Secretary of Defense, the Administrator of General Services, and the Director, Bureau of the Budget, approve the above principles and direct that action be expedited to put them into effect.

Date: November 28, 1952.

(S) Robert A. Lovett,
ROBERT A. LOVETT,
Secretary of Defense.

Date: November 28, 1952.

(S) Jess Larson,
JESS LARSON,
Administrator of General Services.

Date: November 28, 1952.

(S) F. J. Lawton,
F. J. LAWTON,
Director, Bureau of the Budget.

SUMMARY OF GSA/AF HAND TOOL AGREEMENT DEVELOPED IN 1957

In 1957 the Topeka Air Force Depot was the Air Force inventory control point for all Air Force hand tools. Prior to this time, it had been determined more economical to have each Air Force installation procure hand tool requirements locally. It was recognized that this system was not satisfactory because of the low quality of tools being procured. In September 1957, the Air Force met with GSA and Navy personnel to attempt to improve this situation. At that time it was agreed that GSA would provide quality tools on approximately 1,200 of its items then coded local purchase and would initially establish stocks at certain regional depots. This agreement worked very satisfactorily. Emphasis was placed on upgrading of quality of tools and providing prompt deliveries to the Air Force.

A later meeting was held with representatives from GSA and the Navy for the purpose of making commodity assignments by family groups for Air Force support between the Navy and GSA.

Subsequently, numerous meetings were held between the AF and GSA, through 1960, to improve the program. An additional group of items was added in November 1958. The last major group of tool items was added in August 1959.

There has been a continuing process of improvement, elimination of duplication and obsolete items, addition of new items, and general maintenance required to provide AF with a complete line of currently needed hand tools.

During this period AF cognizance shifted from Topeka to headquarters, Mobile Air Materiel Area, Brookley Air Force Base, Ala. The overall DOD hand tool responsibility shifted from Navy to Army Quartermaster and finally to DSA. During these changes of responsibility within the DOD, GSA has attempted to cooperate in maintaining and improving service in this area.

At the inception of the program, a USAF Hand Tool Supplement was issued to the GSA Stores Stock Catalog. A separate supplement was continued through September 1, 1960, a copy of which is enclosed. Subsequent to that time, the items all became standard GSA items available to all customer agencies and were

contained in the regular GSA Stores Stock Catalog. The separate supplement was therefore discontinued.

At the inception of the GSA/AF hand tool program, G.S.A.'s basic hand tool program was approximately \$3 million per year. The AF requirements were \$7½ million per year in April 1958 and have leveled off to between \$9 and \$10 million per year.

MINUTES OF CONFERENCE TO ESTABLISH A FIRM APPROACH FOR PROCURING
QUALITY HAND TOOLS

(Topeka Air Force Depot, Topeka, Kans., September 11-12, 1957)

I. PARTICIPANTS

Name	Activity	Title
Capt. J. T. Jones (Chairman)	Topeka Air Force Depot	Chief, Special Equipment.
George E. Somers	do	Special Equipment.
Col. R. C. Butler	Headquarters, Air Training Command.	DCS/M FTAF.
Lt. Col. E. A. LaSalle	Headquarters, SMAMA	Assistant Financial Management.
Maj. R. F. Powell	Headquarters, Strategic Air Command.	Maintenance Division.
Maj. K. L. Anderson	do	Procurement.
MSgt. E. M. Ricks	do	Maintenance Division.
L. J. Fisher	do	Supply Division.
Capt. R. L. Lumbley	Headquarters, Tactical Air Command.	Chief, Supply Control.
Allene W. Cleve	Headquarters, Military Air Transport Service.	Supply.
George T. Roy	Headquarters, Central AD Force.	Director of Procurement.
C. E. Edgington	Headquarters, Air Materiel Command.	Assistant to Director, MCS.
Giles Earnest	Mallory Air Force Depot	Supply.
Louis E. Beaupre	Navy Purchasing Office	Commodity specialist.
D. J. Ariagno	GSA, Kansas City	Regional director, FSS.
M. A. Miller	GSA, Washington, D.C.	Deputy Director, Stores.
C. H. Matthews	do	Chief, Purchase Branch.
L. F. Donahue	GSA, New York	Regional director, FSS.
H. C. Maaske	GSA, San Francisco	Do.
C. E. Wright	GSA, Kansas City	Chief, Buying Division.
Lt. Col. R. J. Kane	Topeka Air Force Depot	Director of Procurement
Maj. H. B. Roberson	do	ODP.
A. H. Stratton	do	Do.
W. H. Rohr	do	Special equipment.
J. A. Anastas	do	Do.
Donald A. Gooder	do	Programs and Requirements.
E. W. Mosby	do	Cataloging and Standardization.
H. D. Brittain	do	Engineering Requirements.
William E. Schuhart	do	Quality Control.
L. A. Deniston	do	ODF.
F. J. Foster	do	ODSM.

II. SUBJECT

Meeting was held September 11-12, 1957, for the purpose of resolving difficulties in locating adequate sources and assuring procurement of quality tools at base level.

III. INTRODUCTION

The conferees were welcomed by Col. Loran Anderson, Commander, Topeka Air Force Depot. Following this, Mr. George Somers presented background data of the local purchase handtool problem, its impact on the Air Force and what we should accomplish. During this presentation all representatives were advised that decisions reached at this conference would govern the outcome of the local purchase handtool program.

IV. DECISIONS REACHED AND COMMENTS

Decision

The Air Force will utilize Navy stock fund with bases requisitioning direct from Navy stores.

Comments

All conferees agreed this was a sound, economical approach to the problem and should be implemented as soon as possible. This method was approved by Headquarters, AMC, with tentative approval from the Department of Navy. A letter will be forwarded by Topeka Air Force Depot to the Navy on September 18, 1957, to obtain an official position. The details for developing an interservice agreement with the Navy and accomplishing catalog changes is the responsibility of Topeka Air Force Depot. A target date of May 1, 1958, has been established for completing the entire program.

Decision

The Air Force may utilize General Services Administration as a source of local procurement.

Comments

The Air Force was guaranteed that GSA could provide quality tools on approximately 1,200 items now coded "Local Purchase." It was mutually agreed this source of supply should be made available to all bases.

Topeka Air Force Depot will visit GSA, Kansas City office, September 20, 1957, to obtain a list of items stocked. These items will be reviewed to purify stock numbers and will be forwarded with a letter of transmittal, October 15, 1957, to the major air commands for distribution and implementing instructions to their bases. Topeka Air Force Depot will be responsible for notifying all major air commands of additions, deletions, or changes to the list.

GSA will initially establish regional offices at New York, Kansas City, and San Francisco, with their central agency located at Kansas City. Additional regional offices will be added as required with the major emphasis on adding either the Atlanta or Dallas regions as soon as possible. All matters pertaining to this program will be handled between Topeka Air Force Depot and the central agency.

The problem of processing unsatisfactory reports will be worked out between GSA and Topeka Air Force Depot. When a solution is reached, all bases will be advised the method of handling unsatisfactory reports through the prime commodity depot.

Sacramento air materiel area previously worked out a system with GSA, San Francisco regional office, for supplying certain tools to the 5th Air Force, FEAF. What has taken place at this conference will not interfere with this program in any way. Lieutenant Colonel LaSalle was assured of this during the conference.

Any recommendations relative to this program should be forwarded to this depot, attention: ODSU.

Decision

All items not available through General Services Administration or the Department of the Navy will be screened against Air Force Regulation 70-16. Those items not meeting the criteria for local purchase will be returned to central procurement.

Comments

A team consisting of Topeka Air Force Depot, Mallory Air Force Depot, Headquarters, AMC, and the Department of Navy will convene for this purpose. During this review, emphasis will be placed on eliminating from the stock lists those items no longer suitable for Air Force use. This program is scheduled to be completed prior to July 1, 1958.

Decision

The Navy, as the single service manager for FSC-51, agreed to service test the use of call-type contracts.

Comments

Topeka Air Force Depot will define the criteria to be used. When contracts are consummated, all commands will be notified of the items involved and given specific instructions on how they should be managed. There

will be no stock list changes made on items involved during the service test of call-type contracts.

V. COMMAND EXPRESSIONS

SAC expressed their desire for the use of stock fund in the Air Force with the funding responsibility remaining at base level. TAC, MATS, and ADC concurred in this proposal; ATC was opposed. This is an action item for Topeka Air Force Depot and will be referred to Headquarters, AMC, for decision.

SAC requested a qualified producers list, more stringent specifications, and illustrated stock lists to assist them in procurement of these items. In view of the decisions reached at this conference, this is no longer an action item.

TAC requested the GSA list and letter of transmittal be sent to all bases in the Air Force. This was concurred in by SAC, ADC, and MATS. However, because of the volume, Topeka Air Force Depot decided to send either Multilith mats or reproduced lists with the letter of transmittal to the 17 major air commands for their dissemination.

Mallory Air Force Depot recommended action be taken at the earliest possible date to develop a common list where everyone would use the same stock number. This will be considered during our item by item review and managed as a continuing problem thereafter.

It was agreed upon between Mallory Air Force Depot and Topeka Air Force Depot that action taken at this conference also applied to those 17-B items still at Mallory Air Force Depot. Further, it was agreeable to Topeka Air Force Depot to assume responsibility of those items if the actual cataloging could be expedited through Headquarters, AMC. This is an action item for Headquarters, AMC.

TAC stated that every effort should be made to standardize forms, regardless of the system we use, so personnel at base level could undertake what they were doing and we would all be speaking the same language. This is an action item for Topeka Air Force Depot and will be accomplished while working out the details of these procedures.

The Department of Navy recommended that the Air Force review all items to determine if they were true LP or should be returned to CP. This is an action item for Topeka AFD and will be resolved during the review of AFR 70-16.

It was pointed out by Colonel Butler, ATC, that when an item converts from LP to CP, the only way the Prime Commodity Depot has for determining initial requirements is a command survey. All major air commands should carefully consider these surveys so adequate procurement can be made when an item converts to CP.

VI. CONCLUSION AND SUMMARY

The following is a brief outline of how the local purchase hand tool program will be solved and the impact by number of item involved.

<i>Approximate Number of items affected</i>	<i>Solution</i>
7700 Items now in FSC 51 and AF class 17B	
800 Items now CP-----	No action required.
1200 Items GSA Stores Stock Catalog----	Remain LP and the bases encouraged to utilize this service.
3000 Items LP-----	Obtain by AF bases going direct to Navy stores.
2700 Items remaining LP-----	Detailed item by item review to determine if they meet the criteria for LP under AFR 70-16.

Topeka AFD expresses their appreciation to representatives from SAC, TAC, ADC, ATC, MATS, Mallory AFD, Hq AMC, GSA, and the Department of Navy for their excellent participation and cooperation in making this conference a success.

Joseph T. Jones, Capt., USAF, Topeka Air Force Depot, ODSU, Chairman; C. E. Edgington, Hq AMC; L. J. Fisher, Hq SAC; Allene W. Cleve, Hq MATS; Raymond L. Lumbley, Capt., USAF, Hq TAC; Robert O. Butler, Colonel, USAF, Hq ATC; George T. Roy, Hq ADC; Giles Earnest, Mallory Air Force Station; Louis E. Beaupre, Navy Purchasing Office; Morris A. Miller, General Services Administration; E. A. LaSalle, Lt Colonel, USAF, SMAMA.

MINUTES OF CONFERENCE FINANCING APPROACH FOR OBTAINING QUALITY
HAND TOOLS

General Services Administration
Washington 25, D.C.
July 7 and 8, 1958

Topeka—Air Force

<i>Name</i>	<i>Activity</i>
Mr. George Somers (Chairman).	Topeka AFD, ODSU.
Mr. John Anastas.....	MOAMA, Mobile, Ala. MOSUT. Topeka AFD ODSUCC.
Mr. C. E. Edgington.....	MOAHA Mobile, Ala. MOSUTE-1 Hq. AMC MCS
Mr. B. Musselman.....	MCS
Mr. A. O. Larsen.....	Hq. USAF D/S7S, DCS/M AFMSS-GS-5

Navy

Commander J. B. Paist, Jr..	General Stores Supply Officer, Philadelphia, Penna.
Lt. Comdr. V. O. Balcom X65805.	BUSANDA-Navy Dept. LI
Mr. Paul E. Werz.....	U.S. Navy General Stores Supply Officer Phila- delphia, Penna.
Mr. Louis E. Beaupre.....	Navy Purchasing Office.

General Services Administration

Mr. C. D. Bean.....	Commissioner, FSS, CSA, Washington, D.C.
Mr. R. T. Daly.....	Assistant Commissioner, Purchase and Stores, FSS, Washington, D.C.
Mr. L. L. Dunkle, Jr.....	Director, NBD, FSS, Washington, D.C.
Mr. O. W. Teckemeyer.....	Director, Quality Control Division, FSS, Wash- ington, D.C.
Mr. F. G. Moyer.....	Regional director, FSS, region 4, Atlanta, Ga.
Mr. John M. McGee.....	Regional director, FSS, region 7, Dallas, Tex.
Mr. D. J. Ariagno.....	Regional director, FSS, region 6, Kansas City, Mo.
Mr. A. D. Lively.....	GSA, Office of Comptroller, Washington, D.C.
Mr. R. M. Oremland.....	GSA, FSS, NBD, Washington, D.C.
Mr. C. F. Hayden.....	GSA, FSS, NBD, Washington, D.C.
Mr. E. M. English.....	GSA, FSS, NBD, Washington, D.C.
Mr. F. M. Westbrook.....	GSA, FSS, Stores Management Division, Wash- ington, D.C.
Mr. A. M. Downes.....	GSA, Quality Control Division, FSS, Washington, D.C.
Mr. H. M. Neale.....	GSA, Quality Control Division, FSS, Washington, D.C.

I. SUBJECT

Meeting was held July 7-8, 1958 for the purpose of establishing final approach for Air Force to obtain quality hand tools from either U.S. Navy or General Services Administration.

II. INTRODUCTION

The conferees were welcomed by Mr. C. D. Bean, Commissioner, Federal Supply Service, General Services Administration. Following the introductions, Mr. George Somers, Chairman, presented background data for the local purchase hand tool problem, its impact on the Air Force and steps we have previously taken as a result of hand tool conference, September 11-12, 1957. Conferees were advised that plans will be formulated at this conference covering actions to be taken on every local purchase item presently existing in the Air Force Catalog.

III. GENERAL BACKGROUND AND APPROACH

Topic

The Air Force has listed approximately 400 items in the Navy Stock Fund and approximately 1,000 items in the GSA Stores Catalog. There are still approximately 3,300 LP items for which the Air Force will request supply support from either General Services Administration or Navy.

Comments and conclusions

The conferees all agreed that commodity assignment by family group would be desirable. However, because of the extensive support plans of GSA and Navy for these items, it was concluded that no realignment would be made before January 1960.

Both the Navy and General Services Administration desire a 12-month notice prior to any realignment. However, the Air Force may make this change as long as a minimum of 6 months advance notice is given.

To assist the Air Force in assigning support responsibility, the Navy and GSA will review the top 19 family groups representing approximately 1,900 stock numbers and answer the following questions:

- (1) Is the group of items being reviewed presently in your system?
- (2) Approximately what percent of this group is presently on procurement?
- (3) Are there any peculiarities pertaining to these items which solely affect the reviewing agency?

(4) Do you anticipate any long leadtime in procuring this group of items?

The Air Force will use the information furnished by GSA and Navy to tentatively recommend a supporting agency for these large family groups (1900 items). The initial review of these items with answers to these questions will be returned to Topeka Air Force Depot prior to July 17, 1958. (Federal class 51 is moving from Topeka to Mobile, Ala., July 21, 1958.) Both the Navy and General Services Administration will be advised by the Air Force no later than August 5, 1958, of tentative Air Force recommendations for support of these items.

On all other local purchase items (approximately 3,300), Air Force representatives have coded an LP listing indicating support assignment. Reviews will be made by both GSA and Navy on these items as well as the 19 commodity family group items and results referred to Mobile, Ala., attention MOSUT. A target date of September 1, 1958, is established for this report.

General Services Administration and Navy will provide the following information for these items:

- (a) Acceptance of proposed support responsibility.
- (b) Disagreement with proposed support responsibility.
- (c) After review indicate any items that have been superseded.
- (d) If the reviewing agency feels the item should be completely eliminated, they will so recommend.

The Air Force will advise GSA and Navy by September 15, 1958, of decisions and assignments. By September 30, 1958, each agency concerned will advise the Air Force—

(1) Of their full acceptance or rejection of supply support responsibility by item;

(2) The date by which active supply support can be assumed for items accepted.

On the basis of this advice, Air Force will establish the time for catalog publications and assumption of active support.

Topic

There are approximately 700 LP items now stocked in Air Force class 178. It is anticipated that conversion to FSC 51 will take place within the next few months.

Comments and conclusions

Upon receipt of these new items, the Air Force will advise GSA or Navy of their recommended assignment for each item. GSA and Navy will indicate concurrence or nonconcurrence. On brandnew LP items entering the Air Force system through other than Federal conversion, support will be handled on an individual basis through contacts with both GSA and Navy.

Topic

In the future, when commodity assignments become firm, a requirement will exist for a shifting of assets between GSA and Navy.

Comments and conclusions

The Air Force will be responsible for advising both parties of the assignment change. Sufficient advance notice will be given to allow for normal attrition of assets. In those cases where assets are not completely attrited, local agreements will be worked out between Navy and GSA for transferring those assets.

Topic

In order that the Air Force may evaluate the success of this program, reports will be submitted by GSA and Navy covering the following.

Comments and conclusions

Monthly—The Air Force will be advised the dollar sales and performance effectiveness. GSA will advise stock items and line items on back orders. Navy will review their present reporting system to determine effectiveness data to be submitted and will advise Air Force of this decision Aug. 5, 1958.

Yearly—12 months after GSA and Navy have entered this program, they will advise Air Force of all slow-moving items received under this assignment. The Air Force will utilize this information to determine whether items should be eliminated from Air Force stock list.

Topic

The conferees discussed, in general, methods for obtaining required specification changes and maintaining appropriate quality control procedures.

Comments and conclusions

It was agreed that procedures presently being used by the General Services Administration, Kansas City office and Topeka were satisfactory. The Navy will follow existing DOD methods for obtaining required changes. Since engineering responsibility is assigned the Air Force at the same location as the property class, the Navy will contact Air Force maintenance at MOAMA for required exceptions.

Conclusion and summary

In view of action taken at this conference, a means has now been established for covering assignment of every known or anticipated LP item assigned the Air Force. Although the dates established for accomplishing certain phases of this program are target dates, every effort will be made to maintain this schedule.

The contact points concerning any problems in connection with this program are—

Air Force: Mr. George Somers, attention: MOSUT, Brookley Air Force Base, Mobile, Ala.

Navy: Comdr. W. R. Dowd, Jr., GSSO, Code 400A, 700 Robbins Avenue, Philadelphia, Pa.

GSA: Mr. D. J. Ariagno, GSA, FSS, region 6, 2306 E. Bannister Road, Kansas City, Mo.

The Air Force expresses their appreciation to all representatives attending this conference for their excellent participation and cooperation in making this conference a success.

GEORGE M. SOMERS,
Chairman, Air Force Representative.

Dated: July 9, 1956.

ROBERT M. OREMLAND,
General Services Administration Representative.

Dated: July 9, 1956.

Lt. Comdr. V. O. BALCOM,
Navy Representative.

Dated: July 9, 1956.

GSA Reg. 1-II-402.01
(4-7-59)

AGREEMENT BETWEEN DEPARTMENT OF DEFENSE AND GENERAL SERVICES
ADMINISTRATION ON INTERAGENCY CROSS-SERVICING IN STORAGE ACTIVITIES

1. It is the purpose of this agreement to establish and prescribe procedures to be followed in the cross-servicing of storage and warehousing services between the Department of Defense and civilian agencies of the Government.

2. The provisions of this agreement apply to all Government storage activities except ocean terminals and those activities concerned with the storage and handling of bulk petroleum, oils, lubricants, and strategic and critical materials stored under the General Services Administration stockpiling programs.

3. To the extent feasible, the military services and civilian agencies of the Government will make available to each other, on a reimbursable basis, storage and warehousing services which each may require from time to time.

4. The storage and warehousing services covered by this agreement shall apply only to caselot quantities and shall include but need not be limited to the following:

(a) Unloading of carriers, checking, sorting, and placing material in storage.

(b) Withdrawal of material from storage, checking, marking, and loading of carriers.

(c) Use of storage space.

(d) Care and preservation of stored material.

5. The agency operating a facility will furnish all personnel, supplies, and equipment required for the receipt, storage, care, handling and shipment of material. However, the requesting agency may furnish technical personnel on either an intermittent or continuing basis as required and agreed upon and have the right to inspect material in storage upon prior arrangements with the operating agency.

6. The requesting agency will be responsible for accountability, traffic management on both inbound and outbound traffic, payment of all transportation costs, and for processing actions involving claims for shortage or damage in shipments. The agency operating the facility rendering the storage and warehousing services will furnish documentary evidence which may be available to support claims.

7. Requests for storage and warehousing services will be made in writing and, to the maximum extent, will be submitted at least ninety days in advance of the scheduled date when the material must be placed in storage. However, when expediency demands, shorter notice may be given and, in emergencies, requests and acceptance may be given by any available means of communication. In such instances, confirmation will be made in writing within ten days.

8. Civilian agencies will submit all requests directly to the military services. Information copies of each request will be forwarded to the Administrator, GSA, and to the Assistant Secretary of Defense (Supply and Logistics). See Tab "A" for address of contact points of each military service.

9. The military services will submit all requests directly to the civilian agencies. Information copies of each request will be forwarded to the Assistant Secretary of Defense (Supply and Logistics), and the Administrator, GSA. See Tab "B" for contact points within civilian agencies.

10. Copies of replies made to each request for services will be furnished the ASD (S&L) and the Administrator, GSA, by the military services and civilian agencies.

11. Where applicable and feasible, each request for services will include the following information as a minimum:

- (a) Designation of requesting agency.
- (b) Description of material, including peculiarities affecting storage and handling, if any.
- (c) Type of packaging, or packing, if any (box, case, crate, palletized unit loads, etc.).
- (d) Dimensions of package.
- (e) Weight per package (pounds).
- (f) Total number of packages.
- (g) Type of space required (heated, unheated, refrigerated, etc.).
- (h) Method of care and preservation required, requirements for assembly into kits, stock rotation and other special handling or care.
- (i) Shipper, method of shipment (rail, motor carrier, etc.) and point of origin.
- (j) Originating carrier if storage-in-transit is desired.
- (k) Rate of delivery in carloads or truckloads per day or week as applicable and the date initial delivery can be expected.
- (l) Rate of withdrawals per day or week, if applicable.
- (m) The storage location required, either by specific facility or "vicinity" (city, State, etc.) as applicable.
- (n) Accounting classification of funds to be charged for services and the office to which claims for reimbursement are to be forwarded.
- (o) Accounting office to which notice of receipt of material should be sent.
- (p) Records to be maintained and reports to be rendered by the storing activity.
- (q) Period during which services will be required.

12. A request for services constitutes an order which, when accepted for performance at a price by an activity, will be the basis for obligation of funds available to the requesting activity. Upon acceptance of a request, and within the limits of the acceptance, arrangements incident to the furnishing of services may be handled directly by the activities concerned.

13. Reimbursement for services received will be made not less frequently than quarterly nor more frequently than monthly. The civilian agency or the military service rendering services will establish the frequency and method of reimbursement.

14. Charges for services will be based upon the predetermined rates for each type of service rendered as indicated in Tab "C" to the agreement.

15. In the event it becomes necessary for an agency to inactivate or dispose of a facility used under the terms of this agreement, the agency owning the material agrees to assume responsibility for the care of its property or to remove the property to another location. The agency owning the material shall be furnished at least ninety days' notice as to the plans with respect to the inactivation or disposal of the facility being utilized.

16. Changes to this agreement shall be made only upon approval of both parties. An effective date for each change will be established.

DEPARTMENT OF DEFENSE,
PERKINS MCGUIRE,
Assistant Secretary of Defense (Supply and Logistics).

November 12, 1958.

GENERAL SERVICES ADMINISTRATION,
FRANKLIN FLOETE,
Administrator of General Services.

October 24, 1958.

Tab A

ADDRESS OF MILITARY DEPARTMENT CONTACT POINTS

Department of the Army: Deputy Chief of Staff (Logistics), Storage Branch, Storage and Distribution Division, Washington, D.C.

Department of the Navy: Bureau of Supplies and Accounts, Storage Division, Code S-8, Arlington Annex, Washington, D.C.

Department of the Air Force: Office, Director of Supply and Services, Plans and Programs Group, Storage Branch, Washington, D.C.

Tab B

ADDRESS OF CIVILIAN AGENCY CONTACT POINTS

Department of Agriculture: Office of Plant and Operations, 14th and Independence Avenue, S.W., Washington, D.C.

Department of Commerce: Director of Administrative Operations, Commerce Building, Washington, D.C.

General Services Administration: Federal Supply Service, 18th and F Streets, N.W., Washington, D.C.

Department of Justice: Chief, Administrative Services, Justice Building, Washington, D.C.

Department of the Treasury: Chief, Administrative Services, Treasury Building, Washington, D.C.

Veterans' Administration: Director, Supply Service, Department of Medicine and Surgery (134), Washington, D.C.

National Aeronautics and Space Administration: Procurement Administrator, 1520 H Street, N.W., Washington, D.C.

Atomic Energy Commission: Division of Construction and Supply, Assistant Director for Supply, Washington, D.C.

Department of Health, Education, and Welfare, Division of General Services, 4th and Independence Avenue, S.W., Washington, D.C.

Department of the Interior: Director of Property Management Division, Interior Building, Washington, D.C.

Post Office Department: Director of Supplies, Bureau of Facilities, Main Post Office Building Washington, D.C.

Tennessee Valley Authority: Director of Property and Supply, Lupton Building, Chattanooga, Tennessee.

U.S. Information Agency: Office of Administration, Administrative Services Division, Walker Johnson Building, Washington, D.C.

Tab C

Schedule of services and charges for cross-servicing in storage activities between civilian agencies and military services

Item No.	Services	Commodity classification	Rate
1	Unloading, checking, sorting, and placing in storage.	I. Equipment not in containers (vehicles, boats, cranes, guns, aircraft, etc.). II. Rigid containers (barrels, boxes, cartons, crates, drums). a. Palletized material..... b. Nonpalletized material..... III. Nonrigid containers (bags, bales, bundles). IV. Bulk solids (coal, gravel, rock, sand). V. Liquids..... VI. Lumber (random lengths, plywood, plasterboard, etc.). VII. Pipes, coils..... VIII. Ammunition—explosives—toxics.... IX. Perishable subsistence not in containers (carcass meat, etc.).	\$4.00 per short ton. \$3.00 per short ton. \$3.80 per short ton. \$3.00 per short ton. \$1.00 per short ton. \$2.50 per short ton. \$10.00 per short ton. \$5.20 per short ton. \$7.10 per short ton. \$1.50 per short ton.
2	Withdrawal, checking, and loading.	I. Equipment not in containers (vehicles, boats, cranes, guns, aircraft, etc.). II. Rigid containers (barrels, boxes, cartons, crates, drums). a. Palletized material..... b. Nonpalletized material..... III. Nonrigid containers (bags, bales, bundles). VI. Bulk solids (coal, gravel, rock, sand). V. Liquids..... VI. Lumber (random lengths, plywood, plasterboard, etc.). VII. Pipes, coils..... VIII. Ammunition—explosives—toxics.... IX. Perishable subsistence not in containers (carcass meat, etc.).	\$6.50 per short ton. \$3.50 per short ton. \$7.50 per short ton. \$4.50 per short ton. \$1.00 per short ton. \$3.50 per short ton. \$10.00 per short ton. \$5.20 per short ton. \$10.00 per short ton. \$2.00 per short ton.
3	Use of space (Government-owned).	I. Heated or controlled humidity warehouse. II. Refrigerated warehouse..... III. Flammable warehouse..... IV. Unheated warehouse..... V. Shed..... VI. Open.....	40 cents per gr. sq. ft. per annum. Do. Do. 35 cents per gr. sq. ft. per annum. Do. 8 cents per gr. sq. ft. per annum.
4	Use of space (non-Government-owned).	-----	The rate for space which is not Government-owned will not be fixed. Rate will be negotiated by agencies and agreed upon as a part of accepting requests for services. Basis for rate will be the prevailing cost of such space to the operating agency.
5	Preservation and packaging (time and material).	-----	\$3.50 per man-hour.
6	Packing, strapping, and marking (time and material).	-----	Do.
7	Inventory	-----	\$2.50 per man-hour.
8	Special security	-----	\$2.50 per man-hour.
9a	Unloading, checking, sorting, and placing in storage.	Machine tools and industrial metal working equipment.	\$3.10 per man-hour.
b	Withdrawal, checking, and loading.	Machine tools and industrial metal working equipment.	\$3.10 per man-hour plus direct cost of materials.
c	Preservation and packaging.	Machine tools and industrial metal working equipment.	\$3.35 per man-hour plus direct cost of materials.

Tab C—Continued

Item No.	Services	Commodity classification	Rate
d	Inspection, testing, and reconditioning.	Machine tools and industrial metal working equipment.	\$3.35 per man-hour plus direct cost of materials. 9a through 9d. Notwithstanding the rates specified in Item No. 9, services at contractor-operated Government facilities shall be billed at actual cost if contractor's system of accounts specifically isolates cost applicable to stored and serviced machines and equipment; provided, however, that if such costs are not specifically isolated to the satisfaction of the Government, the rates specified in Item No. 9 shall be applicable to the respective services.

NOTE.—The above rates are based on bulk quantities operations and include amounts for essential documentation incident to each service performed.

GENERAL SERVICES ADMINISTRATION,
Washington, D.C., April 4, 1960.

HON. PERKINS MCGUIRE,
Assistant Secretary of Defense (Supply and Logistics),
Washington, D.C.

DEAR PERK: Receipt is acknowledged of your letter of March 28, informing us of the materiel management improvement program for the Department of Defense and of the plans and objectives for increasing the use by DOD of the supply support capabilities of General Services Administration.

We congratulate you for developing and putting into effect this logical and important program which is exceedingly complex.

The last paragraph on page 2 of your letter states that your approval must be secured before final decision is made to withdraw an item from the GSA system. Should such an event develop we request that your approval be withheld until GSA has had an opportunity of discussing the matter with you. By our joint review of such cases the greatest overall economic advantage to the Government can be provided.

I would be very glad to have the suggested briefing on the details of your plans at any time that is convenient to you.

Sincerely yours,

FRANKLIN FLOETE,
Administrator.

ASSISTANT SECRETARY OF DEFENSE,
SUPPLY AND LOGISTICS,
Washington D.C., March 28, 1960.

HON. FRANKLIN FLOETE,
Administrator,
General Services Administration.

DEAR FRANKLIN: On December 10, 1959, staff of my office briefed Mr. C. D. Bean, Commissioner of the Federal Supply Service, on the plans and objectives of the Department of Defense which point toward increasing the use of the General Services Administration's supply support capabilities.

Since that time I have informed the Congress, in testimony before the Joint Economic Committee, of our objective to expand the use of the GSA, and we have developed a fully coordinated Defense materiel management program which includes specific projects designed to carry out this objective. A copy of the Defense materiel management program is attached as inclosure 1, for your information. Projects 60-4, 60-5, and 60-21 are designed to establish policies and procedures for the transfer of procurement and distribution responsibilities for certain items of supply from the DOD to the GSA, and also to provide for

the use by the GSA of available storage space at military depots, from which the GSA may issue items to retail users. The DMMP and the projects contained in it have been fully coordinated with the three military departments. The plans of the DOD under this program have now advanced to the point where the GSA should be made fully aware of the steps we are taking and plan to take in the future.

On January 21, 1960, the Deputy Assistant Secretary of Defense (Supply and Logistics) advised the materiel Secretaries of the Army and Navy of arrangements made between the DOD and the GSA to review items of general supplies including handtools, household furniture and equipment, office supplies and equipment, hardware and abrasives, and paint and sealers. A copy of this memorandum is attached as inclosure 2. The military services are now reviewing and coding all of the 804,000 items in these classes of materiel to determine (1) items which are related to operations of weapons, (2) items which are used only by the military services, and (3) items for which the DOD has a valid mobilization reserve requirement. These items will be coded for military supply management and will remain under the supply management control of the DOD. A copy of the DOD management method criteria is attached as inclosure 3.

All other items will be coded for the most economical management from a Government-wide viewpoint. A schedule for reviewing and coding all items under consideration has been approved and published; a copy thereof is attached as enclosure 4.

As the coding and classification of items is completed for each Federal supply group, the military services have been requested to arrange for conferences with appropriate GSA officials and representatives of my office to select those items which the GSA should procure for, and distribute to, the DOD. The military services have also been requested to develop, in cooperation with the GSA and my office, a schedule for a phased and orderly transfer of supply responsibility to the GSA so that supply support to the DOD will not be disrupted.

The GSA is now providing procurement or supply service to one or more of the military services in the following Federal supply groups:

Federal supply groups 71, 74, and 75 for office furniture, office machines, and office supplies, respectively, which are presently covered by interagency purchase assignments;

Federal supply groups 51, 71, 72, and 80, and common-use commercial housekeeping and general supplies, as are included in and typified by sections I and III of the GSA stores stock catalog, December 1959 issue, as revised;

Federal supply groups covered by Federal supply schedule contracts.

The specifically numbered Federal supply groups listed above are all included in whole or in part on our schedule for review and coding which is attached as enclosure 4. In addition, over 700,000 other items of supply of the type included in sections I and III of the GSA stores stock catalog are included on this schedule.

The military departments have been instructed that if any classification assignee classifies an item as being one which should be bought, stored, and distributed by the DOD, and the item is one for which the GSA now renders support to any of the military services, a final decision to withdraw the item from the GSA system must be approved by the OASD (S. & L.). With this instruction as the basis for our joint review, we can determine the management assignment for additional items which will provide the greatest overall economic advantage to the Government.

In the review of the first group of items to be coded, FSG 80, brushes, paints, sealers, and adhesives, more than 1,000 items have been classified as susceptible to management by the GSA. In this group the number of items to be discussed with the GSA is approximately twice the number of items in the GSA system at this time and more than four times the number of items for which the GSA is currently providing support to the DOD. Coding action on all listed Federal groups and classes will be completed during this calendar year. Based on the criteria for coding items, and the stated policy of this office, there will be a sharp increase in the number and sales volume of items to be supplied the military by the GSA.

As you know, 65 percent of the total of GSA sales of items to Government agencies is made to the DOD. There has been an increasing reliance upon the GSA by the DOD for supply support since 1954. I am confident that under our Defense materiel management program the DOD will not only continue to capitalize on the capabilities of the GSA but expand considerably the number of items which the GSA should supply to the DOD. I believe that the supply management objectives and plans of the DOD are firm and clear.

I have instructed my staff to work closely with Mr. Bean and keep him informed of the progress and status of our program.

In view of the importance of our program and its effect upon the supply operations of the GSA and the DOD, I believe it would be advisable at a convenient time to brief you on the details of our plans.

Sincerely yours,

PERKINS MCGUIRE,
Assistant Secretary of Defense (Supply and Logistics).

EXECUTIVE OFFICE OF THE PRESIDENT,
BUREAU OF THE BUDGET,
Washington, D.C., October 30, 1961.

Hon. JOHN L. MOORE,
*Administrator, General Services Administration,
Washington, D.C.*

DEAR MR. MOORE: This is in reply to Mr. Boutin's letter of August 1, 1961, signed jointly with the Assistant Secretary of Defense, Installations and Logistics, requesting approval of the procedures proposed to govern transfers of inventory that take place in connection with the transfer of certain supply responsibilities from the Department of Defense to the General Services Administration.

As we understand the proposed plan, the General Services Administration would submit quarterly reports to the Bureau of the Budget containing data on inventories to be transferred from the Department of Defense to the General Services Administration. These reports would serve as requests for determinations by the Director of the Bureau of the Budget as to the property which relates primarily to the transferred functions, as provided by section 107(b) of the Federal Property and Administrative Services Act. Actual transfer of inventories, within the meaning of section 107(b) of the act would only take place after appropriate determination orders have been issued.

The above procedure appears to be adequate so far as transfers of supply inventories are concerned, and to that extent we approve the plan with the understanding that experience may indicate modifications which can be arranged as their need becomes apparent.

The proposed plan does not provide for transfers of related funds being held in the Department of Defense working capital funds or in other accounts. Therefore the supporting data which would be furnished to the Bureau of the Budget as a request for a determination apparently would not include information concerning such funds and their availability for transfer along with the inventories. We understand that in some instances inventories on hand in the Department of Defense will be reduced by attrition prior to formal transfer to the General Services Administration. Attrition prior to transfer may be the most economical policy from an operating standpoint but the result is that funds needed for inventory support of the items involved will not be transferred and therefore the General Services Administration will be accepting additional supply responsibility without having either the inventory or the capital funds necessary to carry out its new functions. The Department of Defense, on the other hand, would no longer require the remaining funds to support items transferred to the General Services Administration. Under these circumstances we believe the possibility of transferring capital, as well as supply inventories, should be considered and that the quarterly requests to the Bureau of the Budget should either provide for such transfers or include adequate justification for not so providing. In general, we believe the policy should be to transfer the amount of capital reasonably needed for supporting the supply responsibilities being transferred, regardless of whether, at the time of the transfer, such capital is in the form of inventories or funds being held in a working capital account.

The General Services Administration will also incur increased operating expenses for the additional procurement, warehousing, and distribution services required for the items transferred. However, we recognize the practical problems involved in identifying where in the Department of Defense operating funds should be made available for transfer. We agree, therefore, that for the present the quarterly proposals to the Bureau of the Budget need not include provisions for transferring operating funds or manpower except where they are concentrated within the Department of Defense and therefore can be readily identified.

This letter should not be construed as an approval of all the detailed procedures outlined in the attachments to your letter. These procedures will be subject to further review.

Sincerely yours,

ELMER B. STAATS, *Acting Director.*

DEPARTMENT OF DEFENSE AND
GENERAL SERVICES ADMINISTRATION,
Washington, D.C., August 1, 1961.

HON. DAVID E. BELL,
*Director, Bureau of the Budget,
Washington, D.C.*

DEAR MR. BELL: As you know, negotiations have been underway for some time with respect to the transfer of responsibilities for the supply support of the Department of Defense of common-use items of supply from the Department of Defense to the General Services Administration. These negotiations have now reached the point where GSA assumption of supply responsibility for large numbers of specific items is imminent. It becomes important for GSA to assume control of the related stocks in the Department of Defense. A background statement (tab A) is enclosed, explaining the procedures for transfer of supply responsibilities.

Pursuant to agreement between GSA and DOD, and under authority of section 201(a) of the Federal Property and Administrative Services Act of 1949, the functions of procurement and distribution, and related activities, for common-use, commercial-type items of personal property are being transferred to the Federal Supply Service, GSA, with the following exceptions:

- (a) Items essential to a weapons system.
- (b) Items subject to continuous redesign during production.
- (c) Items required to be stocked for general mobilization reserve in depots in the continental United States.
- (d) Items exclusively used by the Department of Defense.

This transfer action is the culmination of a long period of negotiation between the DOD and GSA, and the attached exchange of correspondence (tab B) between the DOD and GSA constitutes the agreement between our respective agencies with respect to implementation of the transfer of the supply and distribution functions concerned. Your staff in the Military and Commerce and Finance Divisions and in the Office of Organization and Management have participated in the GSA/DOD negotiations and are familiar with the methods proposed for implementation of these agreements.

The Bureau's letter of April 2, 1953, set forth certain principles to be followed in connection with securing Bureau approval of arrangements for transfer of records, property, personnel, etc., in connection with such transfers. There is enclosed (tab C) a statement, to which we jointly subscribe, dealing with the eight specific points in the Bureau's letter. It will be noted that paragraph (3)(d) of this statement provides for submission of quarterly reports to the Bureau containing key data with respect to the value of inventory assets proposed for transfer to GSA. These reports will serve as a basis for your determinations as required under section 107(b) of the act. The suspense account arrangement mentioned in paragraph 3(c) will, among other things, provide the means for interim utilization of inventories to fill incoming orders in lieu of duplicative purchases.

These procedures will govern the transfer of supply responsibilities from the Department of Defense to the General Services Administration until expressly modified. Your approval is requested of the procedures governing inventory transfers.

Sincerely yours,

BERNARD L. BOUTIN,
Acting Administrator, General Services Administration.
THOMAS D. MORRIS,
Assistant Secretary of Defense, Installations and Logistics.

BACKGROUND STATEMENT RELATIVE TO TRANSFER OF SUPPLY RESPONSIBILITIES
FROM DOD TO GSA

This statement describes the procedures through which items of supply will be referred by agencies of the Department of Defense to GSA. The Department of Defense agencies ultimately to be involved are listed in the second enclosure. The Military General Supply Agency (MGSA) and the Military Industrial Supply Agency (MISA) have already undertaken this work. MGSA and MISA have been and are screening individual items in the Federal Supply classes assigned to them to determine the appropriate item management for each item. In general, the criteria used are as follows:

A. Item to be managed by a military department if subject to continuous redesign during production, or if essential to a weapons system.

B. Item to be managed by the DOD (generally, by MGSA or MISA) if there are general mobilization Reserve requirements or if the item is peculiar to DOD.

C. DOD item management not necessary for remaining items, and GSA is to make determinations as to item management.

With respect to these code C items, various elements in DOD now receive them:

- (1) From GSA depots;
- (2) From GSA by direct delivery;
- (3) Under Federal Supply Schedule;
- (4) From commercial sources locally; and
- (5) From DOD depots. (In turn, the DOD depots may use GSA as a source.)

A given code C item may now be supplied through one of the above means for a given installation or service, and through other means elsewhere.

The GSA analysis may lead to an item moving from any of the five categories listed above to practically any of the others, although some of the possible combinations would occur only rarely if at all. The major impact on GSA will come from—

- (a) Supplying through one of the three GSA methods some of those items now procured locally;
- (b) Supplying through one of the three GSA methods some of those items now supplied in whole or in part through DOD depots.
- (c) Shifts among the GSA methods dictated by the changing pattern of item demand.

When GSA has determined the method of supply, all elements in the DOD will be supplied through that method, in contrast to the diversity under present procedures. In many cases GSA will experience additional DOD demand, through supporting additional DOD customers, for items which it is presently supplying to civil agencies and to some DOD activities.

The matter of DOD inventories must be considered, with particular reference to the following:

- (a) Items now stocked by DOD, which are to be stocked by GSA;
- (b) Items now stocked by DOD, which GSA designates for supply through Federal supply schedules or by local procurement from commercial sources;
- (c) Items now stocked by DOD which are to be eliminated from the system by standardization action.
- (d) Items in less-than-new condition.
- (e) Items in small quantities and/or remote locations.

Items will be referred to GSA by DOD on an incremental basis over the next several years, related to developments such as the following:

- (a) The cleanup of initial codings by MGSA and MISA, followup to validate mobilization reserve or other designations, and completion of coding work on any Federal supply classes to be added to these assignments.
- (b) New single-manager operating agency assignments, such as those for automotive supply and construction supply.
- (c) Referrals from military department (not single manager) inventory control points.
- (d) Changing criteria for mobilization reserve requirements (acquisition or retention).
- (e) Other developments, such as standardization actions, obsolescence, changes in military/civil demand patterns, etc., all of which might alter the coding of an item.

As these items are referred to GSA, decisions will be made as to how they are to be supplied and what disposition is to be made of existing assets. Every effort will be made to provide an orderly tie-in to the issuance of catalogs or

supplements. It should also be noted that the availability of assets to GSA will be influenced by future decisions regarding the wholesale/retail distribution pattern within the DOD, and by other factors.

With respect to operating funds, a number of factors should be noted. As indicated above, it will not be possible to predict in advance the items to be transferred, nor the relevant sales volumes and inventories. Within the Department of Defense, these transfers will tend to reduce workloads within inventory control points, depots, and procurement offices, and often within fairly small organizational units at those activities, but such reductions will not be large as compared with total DOD operations. The transfer will rarely involve, in total, an organizational unit of any significant size. These transfers will be taking place, furthermore, while the budget adjustments incident to the single-manager operating agency assignments are being worked out. Many of the installations may also be involved in the comprehensive surveys now being conducted, from which installation closings or far-reaching mission changes may result. Under such circumstances, it will not be possible to estimate adjustments in operating funds related to transfers to GSA.

With respect to GSA operating funds, the same difficulties prevail with respect to forecasting sales volumes and inventory amounts, and their timing, relative to the takeover. In general terms, the impact upon GSA will involve (a) shifts within the various GSA methods of supply, and (b) sharp increases in overall supply volumes as related to GSA operations. These will occur from month to month during the coming years. These developments are precisely what GSA has been experiencing. It would be impracticable to measure, from the GSA viewpoint, the cost impact of the supply transfers discussed herein. What can be done is to make reasonably solid projections of the total GSA program from time to time, and of the related operating costs.

It appears clear from the foregoing that what is involved here is not a onetime, clean-cut transfer of functions which can be accomplished through transfer of personnel and operating funds. What is required, rather, is continuing review and adjustment of supply operating programs through normal budget channels, based upon changes in requirements in total.

GENERAL SERVICES ADMINISTRATION,
Washington, D.C., April 12, 1961.

HON. THOMAS D. MORRIS,
*Assistant Secretary of Defense (Installations and Logistics),
Department of Defense, Washington, D.C.*

DEAR MR. MORRIS: Mr. Gibson's letter of March 24 on transfer of inventories for items which are to be supplied by GSA suggested policies which should permit sound and equitable arrangements for transfer of support responsibility.

We have reviewed the seven points enumerated in your letter, and with the possible exception of the second point on use of existing DOD/GSA agreements on warehousing services and space utilization, we are wholly in accord with your thoughts.

I have therefore instructed my staff to begin the development of definitive plans on each of these points jointly with your staff.

Sincerely yours,

JOHN L. MOORE, *Administrator.*

ASSISTANT SECRETARY OF DEFENSE,
INSTALLATIONS AND LOGISTICS,
Washington, D.C., March 24, 1961.

HON. JOHN L. MOORE,
Administrator, General Services Administration.

DEAR MR. MOORE: The Defense Department with the full participation of the GSA, is engaged in an orderly but aggressive program to expand Defense use of the GSA supply system. The success of this program is dependent upon close coordination of policies, plans, programs, procedures, and schedules between both agencies. To date our respective staff organizations have developed good working arrangements for the exchange of program data.

For further guidance of our staffs, it is appropriate to establish certain additional policy and procedural guidelines at this time. Approved actions of the

SMOA's for general and industrial supplies are resulting in the review for transfer of a substantial number of items from Defense to the various programs of the GSA supply system. It is our understanding that the GSA is now reviewing some 30,000 items which have been offered by the operating agencies. Many thousand of addition items will be offered as the program progresses.

It is the policy of the Defense Department that items transferred to the GSA for stores depot support will not be centrally managed, stocked, and issued subsequently within Defense. For this reason it is expected that Defense inventory managers will have residual wholesale or depot level stocks subsequent to cutover date for GSA support. To the extent these stocks are owned and possessed by stock funds above issue requirement through the date of assumption by GSA of actual supply responsibility, or stocks are owned by appropriation accounts and located in Zone of Interior, depots or central supply locations above issue requirements through the "budget year" after the date of assumption by GSA of actual supply responsibility, it is our intention to transfer ownership of these residual stocks to the GSA without reimbursement for capitalization in the general supply fund. This transfer will be made in accordance with the provisions of the Federal Property and Administrative Services Act of 1949, as amended, and the provisions of the National Security Act of 1947, as amended.

To effect these transfers with a minimum of complication and without disruption of supply support, our respective staffs must consider and develop definitive plans to cover the following points:

(1) The need for discussion with the Budget Bureau leading to approval of this transfer as required under law.

(2) The need to develop procedures for channeling Defense requisitions to the GSA and for processing GSA transfer orders on Defense depots holding capitalized stocks. (In this regard, the existing DOD/GSA agreement on warehousing services and space utilization would be applied.)

(3) The need for stock status and inventory accounting data phased to the support cutover dates.

(4) The need to develop logical cutover support dates which will minimize catalog changes. To the extent possible future cutover dates should coincide with the support cutover dates of the SMOA's for the same class of material.

(5) The need for the GSA to review its supply fund capital structure for possible impact on the \$150 million legal limitation.

(6) The need for Defense to review and balance its retail stock levels for items to be supported by the GSA.

(7) The need for the GSA to determine which items are suitable for stores depot distribution rather than local purchase against Federal supply schedules and to determine with Defense the timing of the cutover supply dates.

The development of these definitive plans will require the cooperative efforts of our respective offices as well as the military departments. I have instructed my staff to take immediate action to this end. If you agree, I trust you will likewise so advise your staff.

Sincerely yours,

GLENN V. GIBSON,
Acting Assistant Secretary of Defense
(Installations and Logistics).

PROVISIONS FOR TRANSFER OF CERTAIN SUPPLY MANAGEMENT RESPONSIBILITIES FROM THE DEPARTMENT OF DEFENSE TO THE GENERAL SERVICES ADMINISTRATION

A statement of principles, transmitted to GSA from the Bureau of the Budget by letter of April 2, 1953, lists certain data (p. 4) to be submitted to the Bureau where practicable in connection with proposed transfers. These points are covered in the following paragraphs.

(1) "A description of the functions to be transferred and the agencies involved."

The Federal Supply Service, General Services Administration, will assume supply responsibilities for additional items and for additional customers within the Department of Defense. These responsibilities will be transferred from time to time by or through the following agencies of the Department of Defense:

Military General Supply Agency, Richmond, Va.

Military Industrial Supply Agency, Philadelphia, Pa.

Military Construction Supply Agency, Columbus Ohio.

Military Automotive Supply Agency, Detroit, Mich.

Defense Electronic Material Supply Agency (decision as to establishment and location to be made by Secretary of Defense).

Other inventory control points, including single manager operating agencies not yet designated.

The items of supply involved will be common use, commercial type which are not (a) essential to a weapons system, (b) subject to continuous redesign during production, or (c) required to be stocked for general mobilization reserve requirements at the Conus depot level. It should be noted, however, that procurement of common-use, commercial-type items (needed for general mobilization reserve) distributed to military customers through military depots may be made through GSA and a determination as to the conditions under which the GSA methods are to be used will be reached in the fall of 1961.

With respect to the items transferred as indicated above, DOD will no longer perform Conus depot procurement, receipt, storage, and issue functions. However, certain commodity management functions, such as cataloging, standardization, and review for effectiveness of support will continue in DOD as well as in GSA.

The functions no longer performed by DOD will be performed by GSA to the extent that the items are stocked in GSA depots; the functions will be curtailed or terminated, as appropriate, for those items that are not to be depot stocked or those which are to be eliminated through standardization action.

(2) "Data relative to the values, quantities, consumption rates, stock levels for normal operations, special stock levels, and excesses of inventories proposed for transfer, utilization, or other disposition."

Because of the factors described in the background statement, it is impracticable to furnish an estimate of these data at this time. The steps to be taken with respect to inventories are detailed in the following paragraphs:

(a) GSA will take over the residual wholesale on-hand and due-in assets in Department of Defense CONUS depots for the items involved. These takeovers will be on a phased basis, in terms of the takeover cycles described in the background statement.

(b) GSA will inspect stocks to verify quantities and conditions, as necessary.

(c) Where transportation considerations are relatively minor, and quantities of assets held by the Department of Defense are relatively small, physical transfer to GSA storage facilities will be effected promptly.

(d) Due-ins will, wherever practicable, be rerouted to points to be designated by GSA.

(e) GSA would not use assets in Defense locations to fill routine small orders. These assets would be used by GSA to fill orders for large requirements by direct delivery, and as a first source for replenishment of GSA depot stocks, unless freight considerations and other factors dictate otherwise.

(f) A timetable will be established, based on total demands and total assets within the Department of Defense system, for completion of stock withdrawal through the above methods. The objective will be to complete the withdrawal of all GSA stocks held at Defense storage locations within 1 year.

(g) GSA will prepare a quarterly report, for submission to the Bureau of the Budget, as described in section (3) below.

(3) "The payments to be made or credits to be allowed."

To the extent CONUS wholesale assets are owned by working capital funds of the Department of Defense (stock funds, industrial funds, or other revolving funds), ownership will be transferred to GSA without reimbursement or credit. Withdrawal credits or reimbursement will not be allowed for CONUS wholesale appropriation-owned assets to be transferred to GSA, since such transfers will be limited to quantities in excess of requirements through the budget year after the date of assumption by GSA of actual supply responsibility.

(a) GSA will assume financial accountability for all assets in excess of approved retention levels. This will include assets on hand and due-in at the capitalization date, with payment to be made from the Department of Defense funds cited on the contract. Commitments not yet under firm contracts at the capitalization date may be canceled if, in the opinion of the organization making the commitment, such cancellation would not disrupt relationships with industry or lead to supply failure. If commitments are allowed to stand, payment will be made from the Defense funds against which the commitments were made.

(b) The Department of Defense activity holding the assets will drop them from financial accountability at their standard price, and account separately for such transactions. For revolving funds, this will involve decapitalization.

(c) GSA will record such assets in the general supply fund at GSA's average cost prices or, for any item not stocked by GSA, at an estimated cost price. The value of all such material will be credited originally to a suspense account. As the amount of losses and other adjustments on the inventory involved is determined, including adjustments related to condition, quantity, and disposal losses, the recorded amount of such inventory will be cleared from the suspense account and the net value of the inventory, as thus determined, credited to the capital of the general supply fund.

(d) GSA will furnish quarterly reports to the Bureau of the Budget, to reflect key data with respect to the amounts of material capitalized. These reports will show:

- Assets transferred, start of quarter;
- Assets transferred, during quarter;
- Assets transferred, cumulative, end of quarter;
- Net capitalization, start of quarter;
- Net capitalization, end of quarter.

This report will be accompanied with an appropriate narrative to explain the major changes during the quarter.

(4) "The estimated expenses incident to the transfer."

As indicated in the background statement, responsibilities for large numbers of items will be transferred, nationwide, on a phased basis over an extended period of time. No estimate of the expenses involved is practicable at this time.

(5) "The appropriations and amounts thereof to be transferred or reserved."

(6) "The action to be taken with respect to space, personnel, records, and other property identified with the function."

(a) No transfers of operating appropriations, space, or personnel are proposed.

(b) No appropriation reserves are proposed at this time. All appropriations involved will be reviewed from time to time to determine whether changes in total requirements indicate the possibility of reserving some of the amounts appropriated.

(c) GSA will pay the transportation cost where it directs movement of items from a Defense storage location to a customer or to a GSA storage facility. GSA will pay the freight differential, if any, where due-in assets are directed to locations designated by GSA in accordance with 2 (d), above.

(d) GSA will budget under its own appropriations for all costs of operating GSA supply facilities, including costs resulting from assumption of supply responsibilities from the Department of Defense.

(e) GSA will pay the costs, where a GSA facility is established at a DOD site, under arrangements which are mutually agreeable. Costs relative to residual assets at locations from which GSA does not intend to operate a facility will be handled in accordance with paragraph (f) below.

(f) If the transfer of supply responsibilities to GSA results in costs under an appropriation of the Department of Defense which are greater than were budgeted for management of the items concerned, GSA will reimburse that appropriation for such extra costs. Reimbursement under this provision will be justified where the workload under an appropriation (tonnages, the volume of transactions processed, etc.) are greater due to the GSA takeover than could have been anticipated when the budgets were prepared, and that reductions in workload related to the transfers have not offset demonstrable increases.

(g) Except as enumerated above, no reimbursements related to the transfer of supply responsibilities to GSA will be made.

(h) The Department of Defense will furnish to GSA, as requested, appropriate records (or copies of records) relating to the items to be transferred.

(7) "Estimates of the specific measurable economies and other benefits together with corresponding disadvantages or losses which are expected to accrue from the transfer."

Because of the scope and timing of the transfers, it is impracticable to make any estimates of specific measurable economies. These developments have been considered at length, and comprehensive reports prepared. In general terms, the advantages to the Government will result from better Government-wide utilization of assets, and through consolidation of supply management functions at one point, rather than having the same functions performed at two or more points.

(8) "A statement that the records, property (including inventories), personnel, appropriations, allocations, and space proposed to be transferred relate primarily to the function to be transferred."

Of the items enumerated, only inventories and certain records are proposed to be transferred. These relate primarily to the item management responsibilities to be transferred.

EXECUTIVE OFFICE OF THE PRESIDENT,
BUREAU OF THE BUDGET,
Washington, D.C., October 10, 1961.

Hon. JOHN L. MOORE,
Administrator, General Services Administration, Washington, D.C.

DEAR MR. MOORE: This is in reply to Mr. Boutin's letter of August 1, 1961, signed jointly with the Assistant Secretary of Defense. Installations and logistics, requesting approval of the procedures proposed to govern transfers of inventory that take place in connection with the transfer of certain supply responsibilities from the Department of Defense to the General Services Administration.

As we understand the proposed plan, the General Services Administration would submit quarterly reports to the Bureau of the Budget containing data on inventories to be transferred from the Department of Defense to the General Services Administration. These reports would serve as requests for determinations by the Director of the Bureau of the Budget, as to the property which relates primarily to the transferred functions, as provided by section 107(b) of the Federal Property and Administrative Services Act. Actual transfer of inventories, within the meaning of section 107(b) of the act would only take place after appropriate determination orders have been issued.

The above procedure appears to be adequate so far as transfers of supply inventories are concerned, and so to that extent we approve the plan with the understanding that experience may indicate modifications which can be arranged as their need becomes apparent.

The proposed plan does not provide for transfers of related funds being held in the Department of Defense working capital funds or in other accounts. Therefore the supporting data which could be furnished to the Bureau of the Budget as a request for a determination apparently would not include information concerning such funds and their availability for transfer along with the inventories. We understand that in some instances inventories on hand in the Department of Defense will be reduced by attrition prior to formal transfer to the General Services Administration. Attrition prior to transfer may be the most economical policy from an operating standpoint but the result is that funds needed for inventory support of the items involved will not be transferred and therefore the General Services Administration will be accepting additional supply responsibility without having either the inventory or the capital funds necessary to carry out its new functions. The Department of Defense, on the other hand, would no longer require the remaining funds to support items transferred to the General Services Administration. Under these circumstances we believe the possibility of transferring capital, as well as supply inventories, should be considered and that the quarterly requests to the Bureau of the Budget should either provide for such transfers or include adequate justifications for not so providing. In general, we believe the policy should be to transfer the amount of capital reasonably needed for supporting the supply responsibilities being transferred, regardless of whether, at the time of the transfer, such capital is in the form of inventories or funds being held in a working capital account.

The General Services Administration will also incur increased operating expenses for the additional procurement, warehousing, and distribution services required for the items transferred. However, we recognize the practical problem involved in identifying wherein the Department of Defense operating funds should be made available for transfer. We agree, therefore, that for the present the quarterly proposals to the Bureau of the Budget need not include provisions for transferring operating funds or manpower except where they are concentrated within the Department of Defense and therefore can be readily identified.

This letter should not be construed as an approval of all the detailed procedures outlined in the attachments to your letter. These procedures will be subject to further review.

Sincerely yours,

ELMER B. STAATS,
Acting Director.

NOVEMBER 3, 1961.

Hon. DAVID E. BELL,
*Director, Bureau of the Budget,
Washington, D.C.*

DEAR MR. BELL: Reference is made to Mr. Staats' letter of October 30, 1961, with respect to the transfer of certain supply responsibilities from the Department of Defense to the General Services Administration.

We are pleased that it has been decided not to provide for transfer of operating funds or manpower from the DOD to the GSA in connection with the assumption of additional supply responsibilities, except where there is a concentration of personnel within the DOD which can be readily identified.

We are concerned, however, with respect to the problem of additional capital to finance the inventories required. Our approach has been to provide these funds through additional appropriations to the General Supply Fund. While there may be merit in considering the possibility of transferring capital in the form of funds or inventories from DOD to GSA, it appears that the prudent position would be to make provision for additional capital in our estimates to the Congress for supplemental items for fiscal year 1962 and as regular items for 1963. If experience indicates that capital transfers may be effected further in the form of inventories or funds, then, to that extent our estimates for capital for the General Supply Fund may be correspondingly reduced by an amendment to the 1963 budget next spring.

Your serious consideration and approval of this proposal is earnestly solicited.

Sincerely yours,

BERNARD L. BOUTIN,
Acting Administrator.

GENERAL SERVICES ADMINISTRATION,
FEDERAL SUPPLY SERVICE,
April 10, 1962.

Mr. A. M. Lane,
*Acting Chief, Supply Systems Division,
Headquarters, Air Force Logistics Command,
Wright-Patterson Air Force Base, Dayton, Ohio.*

DEAR MR. LANE: The General Services Administration agrees to provide direct support for all Federal Supply Schedule items to overseas Air Force installations in accordance with your proposal of the 9th of April, 1962.

We think this procedure is another step forward to more efficient, economical support to our Air Force customers.

Sincerely yours,

JOHN M. MCGEE,
Acting Commissioner.

HEADQUARTERS, AIR FORCE LOGISTICS COMMAND,
UNITED STATES AIR FORCE,
Wright-Patterson Air Force Base, Ohio, April 9, 1962.

Reply to Attention of: MCS

Subject: GSA Support of Overseas AF Installations for Federal Supply Schedule Items.

To: General Services Administration, Federal Supply Service, 18th and F Streets, Washington, D.C.

1. The proposed basic policy relative to the proposition that the General Services Administration will provide direct support for Federal Supply Schedule items to overseas Air Force installations is set forth for your acceptance and/or comments:

(a) Commencing 1 June 1962, the General Services Administration will provide materiel support to overseas AF installations for all items listed in Federal Supply Schedules.

(b) Commencing 1 June 1962, overseas AF installations will submit orders for all Federal Supply Schedule (FSS) items directly to the CONUS General Service Administration regional depot currently providing materiel support to those AF installations for GSA stores stocked items and designated items under the National Buying Program.

(c) Orders for FSS item requirements emanating from overseas AF installations will be submitted and processed under the same basic procedures utilized to obtain and provide materiel support from GSA regions for GSA stores items and NBP items.

A. M. LANE,
*Acting Chief, Supply Systems Div., Directorate of Supply
(For the Commander).*

HEADQUARTERS, U.S. ARMY SUPPLY AND MAINTENANCE COMMAND,
Washington, D.C., December 5, 1962.

AMSSM-SC-S.

Subject: EAM catalog cards for identification of GSA items.

To: See distribution.

Pursuant to the national policy to reduce dollar expenditures (flow of gold) outside the United States, oversea requisitioners should have available information which indicates those items available from General Services Administration (GSA). Requisitions for these items should be prepared overseas and submitted to the oversea supply agencies for submission to GSA supply sources.

Enclosed, under separate cover, are decks of EAM catalog cards of GSA stores stocked items and items on Federal supply schedules. The cards are to be used as part of catalog records by the oversea commands and the oversea supply agencies in determining GSA items and sources of supply.

The decks of cards will be reproduced by the OSA's and furnished to the oversea commands. Additions, deletions, and changes to the decks will be furnished the OSA's by GSA for updating OSA records and furnishing such additions, deletions and/or changes to the oversea commands.

Actions relative to the use of the GSA catalog cards, preparation and submission of requisitions for GSA items, will be accomplished by the indicated activities in accordance with the guidance contained in the inclosed list of instructions.

The provisions of these instructions have been concurred in by GSA and become effective on February 1, 1963.

JAMES D. PETERSON,
Colonel, U.S. Army, Deputy Director of Supply
(For B. E. Kendall, Brigadier General,
U.S. Army, Director of Supply).

Distribution:

Chiefs, U.S. Army Oversea Supply Agencies.
Commander in Chief, U.S. Army, Pacific, Fort Shafter, Hawaii.
Commander in Chief, U.S. Army, Europe, Heidelberg, Germany.
Commander, U.S. Army Forces, Caribbean, Fort Amador, Canal Zone.
Commanding General, U.S. Army Communications Zone, Europe, Orleans, France.
Commanding General, Eighth U.S. Army, Seoul, Korea.
Commanding General, U.S. Army, Hawaii, Schofield Barracks, Hawaii.
Commanding General, Seventh Logistics Command, Seoul, Korea.
Commanding General, U.S. Army Ryukyus Islands, Okinawa, Ryukyus.
Commanding General, U.S. Army, Japan, CP, Zama, Japan.
General Services Administration.
Commanding General, U.S. Army Materiel Command, Washington, D.C.
Commanding General, U.S. Army, Alaska, Fort Richardson, Alaska
Commanding Officer, Atlanta Army Depot, Forest Park, Georgia.
Commanding General, Columbus Army Depot, Columbus, Ohio.
Commanding Officer, Schenectady Army Depot, Schenectady, N.Y.
Commanding Officer, Sharpe Army Depot, Lathrop, Calif.
Commanding Officer, U.S. Army Support Command, Philadelphia, Pa.
Commanding Officer, U.S. Army Support Command, Richmond, Va.
Commanding Officer, U.S. Army Area Support Command, Chicago, Ill.
Commanding General, U.S. Army Weapons Command, Rock Island, Ill.
Commanding General, U.S. Army Missile Command, Huntsville, Ala.
Commanding General, U.S. Army Munitions Command, Picatinny Arsenal, Dover, N.J.
Commanding General, U.S. Army Mobility Command, 28251 Van Dyke Ave., Centerline, Mich.
Commanding General, U.S. Army Electronics Command, Fort Monmouth, N.J.

INSTRUCTIONS FOR USE OF GSA CATALOG CARDS

A. General:

1. The decks of cards, furnished under separate cover, consist of catalog cards for both GSA stores stocked items and items on Federal supply schedules.
2. The individual cards can be identified as to stores stocked or schedule by the code contained in card column 6. A code zero (0) in column 6 denotes stores stocked items; a code seven (7) in column 6 denotes schedule items.

3. The GSA cards contain a minimum of item data in the indicated card columns as follows:

Item data	Card columns	Remarks
GSA.....	1-3	Alpha characters "GSA" reflected to indicate the catalog card applicable to GSA items.
GSA source code (routing identifier code).	4-6	Code identifying the GSA supply source from which the item will be obtained.
Stock number.....	8-22	The stock number under which item will be requisitioned.
Unit of issue.....	23-24	Two-digit code indicating the unit of issue applicable to the specific item.
Item description.....	52-61	Short line item description for ready identification of the item.
Unit price.....	74-80	Unit price applicable to the item. The cents value will be contained in cols. 79-80 and the dollar value in cols. 74-78.

4. The card decks have been dispatched via air mail to the following addresses: Chief, U.S. Army Oversea Supply Agency, New York, Brooklyn, N.Y. ATTN: Mr. Tracy, Plans and Programs Office.
 Chief, U.S. Army Oversea Supply Agency, New Orleans, New Orleans, La., ATTN: Mrs. Suarez, QM Section.
 Chief, U.S. Army Oversea Supply Agency, San Francisco, Ft. Mason, Calif. ATTN: Mr. E. A. Vogt, Plans & Programs Office.

A second deck of cards has been forwarded the USAOSA, San Francisco for the purpose of identifying those requisitions which will be submitted to the GSA Seattle regional office. GSA will be requested to address additions, deletions, and/or changes to the above addressees unless this command is otherwise advised.

B. The following actions relative to GSA catalog file maintenance, preparation, and submission of oversea requisitions for GSA items, will be accomplished by the indicated activities:

1. Oversea supply agencies will:

(a) Reproduce the card decks in sufficient quantities to furnish USA COMZ Europe, USARPAC and USARCARIBB with eight decks and establish records at the OSA's. The eight decks for overseas will be increased or decreased as required by the oversea commands.

(b) Disseminate additions, deletions, and/or changes to the catalog decks to the oversea commands as received from GSA. Separate advice will be furnished relative to the codes which will be used for identification of additions, deletions, and/or changes. The OAS's will furnish GSA regional offices with mailing lists for GSA stores stock catalogs and Federal supply schedules as required by oversea requisitioners, as well as for the files of the OSA's. GSA liaison officers will contact the OSA's to assist in development of such lists. GSA regions will forward catalogs and schedules directly to the addresses indicated and will periodically update mailing lists through direct contact with requisitioners, as necessary.

(c) Determine the appropriate GSA method of supply, i.e., stores stocked or schedule as shown in card column 6 of the requisitions. Determination will be made of the oversea area from which the requisitions were submitted, cards columns 31-32. Enter the appropriate routing identifier code or clear text address of the GSA source in the requisitions. The appropriate GSA source will be determined by oversea area as indicated below. The OSA's will followup within prescribed time frames on the GSA source to which requisitions were submitted. The following indicates the GSA regional sources with the oversea areas served:

New York—General Services Administration, Region 2, Federal Supply Service:

P.O. Box 2473, New York 8, N.Y.

Telephone, DIgby 9-0400. Cable address: Nitrites.

Routing Identifier Code: GNØ—Stores stocked items.

GN7—Items on Federal supply schedules.

Transceiver Facility: Data Telephone: 231-1347.

Routing Indicator: RUEDGSA.

Activities supported by GSA and located in Azores, Puerto Rico, Virgin Islands, British Isles, Europe (excluding Greece, Crete, and Turkey), Greenland, Labrador, Newfoundland, Bermuda, and Central and Eastern Canada including

Pinetree and Dewline support will forward requirements for GSA items to GSA region 2, Federal Supply Service.

Dallas—General Services Administration, Region 7, Federal Supply Service:
P.O. Box 2488, Fort Worth 1, Texas.

Telephone—Fort Worth Exchange—EDison 5-4211, ext. 612. Cable address: Dooly.

Routing Identifier Code: GFØ—Stores stocked items.

GF7—items on Federal supply schedules.

Transeiver Facility: Data Telephone: 631-1245.

Routing Indicator: RUCGSA.

Activities supported by GSA and located in Caribbean area, Canal Zone, South America, North Africa, Middle East and Near East (including Greece, Crete, Turkey, and Pakistan) will forward requirements for GSA items to GSA region 7, Federal Supply Service.

San Francisco—General Services Administration, Region 9, Federal Supply Service:

49 Fourth Street, San Francisco 3, California.

Telephone—YUkon 6-3500, ext. 3509. Cable address: Sugar.

Routing Identifier Code: GSØ—Stores stocked items.

GS7—items on Federal supply schedules.

Transeiver Facility: Data Telephone: 831-1245.

Routing Indicator: RUWAGSA.

Activities supported by GSA and located in Pacific area (Hawaiian Islands, Japan, Korea, Guam, Iwo Jima, Johnston Island, Marshall Islands, Taiwan, Wake Island, and Far East and India) will forward requirements for GSA items to GSA region 9, Federal Supply Service.

Seattle—General Services Administration, Region 10, Federal Supply Service:

Naval Air Station, Seattle 15, Washington.

Telephone—LAkeview 3-0550, ext. 352. Cable address: Silver.

Routing Identifier Code: GTØ—Stores stocked items.

GT7—Items on Federal supply schedules.

Transeiver Facility: Data Telephone: 831-1330.

Routing Indicator: RUWAGWA.

Activities supported by GSA and located in Okinawa, Alaska, and Western Canada including Dewline and Pinetree support, will forward requirements for GSA items to GSA Region 10, Federal Supply Service.

2. Oversea commands will:

(Those addressees in receipt of the eight decks of reproduced GSA cards will accomplish distribution of decks as required within the commands.)

(a) Maintain current catalog records for GSA items. To assist in the identification of items, copies of GSA stores stock catalogs and Federal supply schedules will be requested of the appropriate GSA regional office by the method indicated in paragraph B 1(b) above.

(b) Prepare DD Form 1348 or 1348M documents for requisitioning items from GSA.

(1) Where the GSA stock number is known, it will be shown on the 1348 or 1348M.

(2) A manually prepared 1348 will be used when a Federal supply schedule item cannot be identified by a stock number. To assure receiving the desired item, the following data should be shown:

(a) The schedule reference; i.e., FSC Group 71, Part 1.

(b) The index number and subitem number.

(c) Item description.

(c) Establish obligations for requisitioning GSA items.

(d) Enter the GSA type code Ø or 7 in card column 6.

(e) Enter applicable fund codes, identifying obligated funds in card columns 52 and 53 of DD Forms 1348 requisitions.

(f) Enter the signal code in column 51 which indicates the office to be billed as the requisitioner or supplementary address.

(g) When requisitions are submitted by oversea activities to GSA for Federal supply schedule items involving multiple award contracts, the provisions of Army Procurement Procedure 5-106 must be complied with. The requisitioning activity will develop full justification for selection of the particular make and model specified on the requisition when other than the lowest price is requisitioned. The justification will be made a part of the requisition file. No formal determination or finding need be filed with GSA.

C. The GSA will furnish the OSA's with the following status documents:

1. Stores items: Documentation including shipment detail cards, as prescribed by military standard requisitioning and issue procedure.

2. Direct delivery of stores items: When direct delivery of stores items is to be accomplished, GSA will furnish a DD Form 1348M, supply status card. When shipment is made, GSA will furnish copies of GSA Form 1430, GSA stores direct delivery order for the bill to office, the consignee address and the requisitioner. These copies will show the number of packages, type of package, description of contents, package number, gross weight and cube.

3. Federal supply schedule items: Acknowledgment of order and disposition being made. When shipment is made, copies of GSA Form 300, GSA purchase order, will show the number of packages, type of packages, description of contents, package number, the gross weight, and cube will be furnished for the bill to office, the consignee address and the requisitioner.

HEADQUARTERS,
U.S. ARMY SUPPLY AND MAINTENANCE COMMAND,
Washington, D.C., January 18, 1963.

AMSSM-SC-P.

Subject: Determination of General Services Administration items of supply.

To: See distribution.

1. Reference is made to Supply and Maintenance Command Letter, File Number AMSSM-SC-S, dated 5 December 1962, subject: EAM Catalog Cards for Identification of GSA Items.

2. The inclosed instructions are designed to provide requisitioning activities and the OSA's with a means for identification of those items for which GSA is to be considered the sole supply source.

3. In order to provide for an orderly and timely implementation of referenced letter, as amended by the inclosed instructions the effective date of 1 February 1963 is amended to not later than 4 March 1963. Any of the affected activities may effect implementation prior to 4 March. Such implementation will be fully coordinated between the oversea commands and OSA's.

For the Commander:

J. D. PETERSON,
*Colonel, GS,
Deputy Director of Supply.*

Distribution:

Chiefs, U.S. Army Oversea Supply Agencies.

Commander-in-Chief, U.S. Army, Pacific, Ft. Shafter, Hawaii.

Commander-in-Chief, U.S. Army, Europe, Heidelberg, Germany.

Commander, U.S. Army Forces, Caribbean, Ft. Amador, Canal Zone.

Commanding General, U.S. Army Communications Zone, Europe, Orleans, France.

Commanding General, Eighth U.S. Army, Seoul, Korea.

Commanding General, U.S. Army, Hawaii, Schofield Barracks, Hawaii.

Commanding General, Seventh Logistics Command, Seoul, Korea.

Commanding General, U.S. Army Ryukyus Islands, Okinawa, Ryukyus.

Commanding General, U.S. Army, Japan, CP, Zama, Japan.

General Services Administration.

Commanding General, U.S. Army Materiel Command, Washington, D.C.

Commanding General, U.S. Army, Alaska, Ft. Richardson, Alaska.

Commanding Officer, Atlanta Army Depot, Forest Park, Georgia.

Commanding General, Columbus Army Depot, Columbus, Ohio.

Commanding Officer, Schenectady Army Depot, Schenectady, N.Y.

Commanding Officer, Sharpe Army Depot, Lathrop, Calif.

Commanding Officer, U.S. Army Support Command, Philadelphia, Pa.

Commanding Officer, U.S. Army Support Command, Richmond, Va.

Commanding Officer, U.S. Army Area Support Command, Chicago, Ill.

Commanding General, U.S. Army Weapons Command, Rock Island, Ill.

Commanding General, U.S. Army Missile Command, Huntsville, Ala.

Commanding General, U.S. Army Munitions Command, Picatinny Arsenal, Dover, N.J.

Commanding General, U.S. Army Mobility Command, 28251 Van Dyke Ave., Centerline, Mich.

Commanding General, U.S. Army Electronics Command, Fort Monmouth, N.J.

INSTRUCTIONS FOR DETERMINING GSA ITEMS OF SUPPLY

A. General: The instructions contained herein are in addition to the provisions of SMC letter referred to in paragraph 1 of the basic correspondence. In some instances, the provisions of the referenced letter have been amended to provide for uniformity and simplicity of operations. Expeditious actions will be taken by affected activities to assign supply status codes as specified herein.

B. Oversea Supply Agency, New York, will—

1. Review current Federal catalog card deck/tape records to assure that supply status codes have been assigned to each item by the item managers.

2. Accomplish the following actions relative to the indicated supply status codes:

(a) *For FSN's containing no supply status codes.*—Request appropriate item managers to assign supply status codes. The requests for code assignments will be furnished to the item managers not later than March 1, 1963, with an information copy furnished this command, attention: AMSSM-SC-P.

(b) *For FSN's containing multiple supply status codes.*—Resolve with item managers to have a common supply status code assigned. Actions to resolve multiple code assignments will be initiated not later than April 1, 1963.

(c) *For FSN's containing supply status code 2 or Army equivalent supply status code.*—(To accomplish the objectives intended by these instructions, supply status code 2 or equivalent Army supply status code is construed as those items which are not stocked in the CONUS depot system and are authorized for local procurement). Match these FSN's with the GSA card deck furnished with SMC letter referenced in paragraph 1 of basic correspondence. Catalog records for FSN's coded with supply status code 2 or the Army equivalent supply status code, which are contained in the GSA deck, will be used to establish the GSA sole source of supply deck. (Furnish a deck of catalog cards, coded local purchase and contained in the GSA card deck to GSA at the address indicated in par. B2f(3) of these instructions. Continually furnish GSA with cards of items as they are coded local purchase and are contained in the GSA card deck.)

(d) *For FSN's contained in the GSA card deck (the initial 30,000 cards) which are not included in the current Federal catalog card deck/tape records.*—Include these nonmatched GSA FSN's in the GSA sole source of supply deck established as a result of actions taken in subparagraph (c) above.

(e) Establish the GSA sole source of supply deck based upon the actions taken in subparagraphs (c) and (d) above.

(f) Furnish a reproduced deck, representing the established GSA sole source of supply deck to—

(1) OSA, New Orleans;

(2) OSA, San Francisco;

(3) General Services Administration, Director, Technical Assistance Division, Federal Supply Service, General Services Administration Building, room 5004, 18th and F Streets NW., Washington 25, D.C.

(g) *Maintenance of the GSA sole source of supply deck*

(1) As items are coded with supply status code 2 or the Army equivalent, by item managers, actions indicated in subparagraph (c) above, will be accomplished.

(2) Develop a suggested card format to be used by GSA for providing additions, deletions, and changes to the GSA deck (30,000 cards). The suggested format will be furnished to GSA, Washington, D.C. (with information copies to this command, OSA's New Orleans, and San Francisco). (GSA will provide additions, deletions, and changes to the GSA card deck (30,000 cards) to the OSA's in the format agreed to between the Army and GSA. Additions will be provided by GSA to the OSA's on a monthly basis.)

(3) Upon receipt of additions and changes to the GSA card deck, accomplish the actions indicated in subparagraphs (c), (d), (e), and (f) above.

C. Each OSA will accomplish the following actions:

1. Furnish the supported overseas commands with a reproduced copy of the GSA sole source of supply deck. (The items contained in the GSA sole source of supply deck and all other items coded local purchase which are contained in the Federal supply schedules, are those items for which GSA is the sole source of supply. This latter group of items may or may not be identified by stock numbers.) Authority is granted to OSA's to furnish the GSA sole source of supply deck to military assistance advisory groups (MAAG's), if requested by MAAG's.

2. Maintain current GSA sole source of supply decks from the card data periodically furnished by OSA, New York, and distribute changes to the sole source of supply decks to supported overseas commands.

3. Process requisitions as follows:

(a) Requisitions for items coded local purchase in military supply manuals and included in the GSA sole source of supply deck or contained in the Federal supply schedules will be coded with the appropriate GSA supply source routing identifier code. These requisitions will then be forwarded to the appropriate GSA source for supply action. New York and New Orleans OSA's will forward requisitions to the GSA regional offices at New York and Dallas, respectively, without regard to the oversea area from which requisitions are received. (This latter instruction supersedes the provisions of par. B1C of the SMC letter, referenced in par. 1 of basic correspondence, applicable to the submission of requisitions to the New York and Dallas regional offices.)

(b) Requisitions, other than those identified in subparagraph (a) above, will be forwarded to the appropriate DSA or Army source of supply.

D. Oversea commands will:

1. Prepare requisitions for items for which GSA is the sole source of supply on MILSTRIP documentation.

(a) Review GSA sole source of supply deck and Federal supply schedules to determine whether GSA is the source of supply for items coded local purchase in military supply manuals.

(b) Prepare requisitions for GSA items in Federal supply schedules, which do not contain FSN's, to include the manual annotation that the items are available from Federal supply schedules.

(c) Prepare requisitions for GSA items in Federal Supply Schedules which contain generic FSN's, not specific as to size, make, or color, to include exception description data and the annotation that the items are available from the Federal supply schedules.

2. Continue actions, applicable to the oversea commands, as prescribed in the instructions to the SMC letter referenced in paragraph 1 of the basic correspondence. (Paragraph B2d of the instructions contained with the referenced SMC letter is deleted in its entirety. The OSA's are responsible for entering the entire GSA Routing Identifier Code on the requisitions).

3. Increase obligations for GSA items by 7 percent as a surcharge for oversea packing costs as prescribed in DA Circular 37-14, August 1, 1962 (Financial Administration—Payment to the General Services Administration for materiel ordered from the general supply fund and for related supply support services for oversea shipments).

4. Furnish to GSA, at the address included in paragraph B2f(3) above a one-time demand forecast for those FSN's stocked by the command. This demand forecast should include a representative past period and be identified as to the period used.

5. Accomplish actions relative to lost, damaged, defective or incorrect items of GSA shipments in accordance with the provisions of paragraph 4, DA Circular 37-14.

6. Accomplish payment of bills rendered by GSA as prescribed in paragraph 3, DA Circular 37-14.

E. General Services Administration has agreed to accomplish the following:

1. Furnish status documents to the OSA, having submitted a requisition to a GSA Supply Source, for those requisitions which may be passed between the New York and Dallas regional offices.

2. Initiate action to provide the OSA's with shipment detail cards, in lieu of GSA Forms 1430, for stores items supplied as a result of direct delivery from vendors.

3. Submit bills for GSA shipments to the office to be billed as indicated by the signal code on the requisitions. (GSA billing documents and method of billing are as outlined in paragraph 2, DA Circular 37-14).

4. Initiate action to provide OSA's with status documents and shipment detail cards, in lieu of GSA Forms 300 and GSA purchase orders for items supplied from Federal supply schedules.

FEBRUARY 14, 1963.

Hon. THOMAS D. MORRIS,
Assistant Secretary of Defense,
Department of Defense, Washington, D.C.

DEAR MR. MORRIS: Attached is a series of exchanges between Mr. Bean and General Hardy on handtools which prompts me to question whether we are achieving the joint objectives established between our agencies in March 1960.

As I understand the essence of the agreement reached at that time, there were two major decisions involved (1) that there would be no withdrawal of items from GSA without the prior approval of your Office, and (2) that GSA would be offered additional items which do not require military management.

As to the first decision, the attached correspondence indicates that we have exhausted all reasonable means of negotiation with DSA on the hand tools being withdrawn from GSA and we must now refer this case to your Office for review of the validity of the action being taken. In the meantime, we have asked DSA to withhold action to withdraw these items until you have had an opportunity to review this matter.

As to the second point in our earlier agreements, from the discussions between members of our staffs, there is a general feeling that the objectives originally contemplated are not being fully realized, and that a reappraisal of GSA's supply support role is needed.

There are two examples which clearly bear this out. In the case of paints and brushes, GSA support is limited to some 450 items, while over 1,000 remain under DSA management. It would appear to me that these items, with rare exception, do not require military management and should be assigned to GSA without further delay.

The second example concerns the system used by DGSC to classify an item as to whether it should be offered to GSA or be retained for DGSC management. This system is covered by DGSC PP710-1, August 19, 1962, which, we understand, is their implementation of DOD and DSA policy directives. Our review of this particular document indicates to us that the only items offered to GSA other than DOD/GSA matches are commercial type items, readily available from industry which either are uneconomical to centrally manage, or have excessive deterioration.

Obviously, this will not produce the offers to GSA which we have mutually agreed should be forthcoming. An immediate improvement could be made by revising the DGSC procedure to offer all commercial type items to GSA which do not have mobilization reserve requirements. There are thousands of such items currently under DGSC central management which are of the type that GSA has proven it is capable of handling efficiently and economically even under emergency conditions such as was experienced during the Cuban crisis.

The above actions can be taken now to strengthen and reaffirm our mutual understandings even while we are working on a complete reappraisal of our support role and on a mutually acceptable solution to the mobilization reserve problem.

Sincerely yours,

BERNARD L. BOUTIN, *Administrator.*

ASSISTANT SECRETARY OF DEFENSE,
INSTALLATIONS AND LOGISTICS,
Washington, D.C., February 21, 1963.

HON. BERNARD L. BOUTIN,
*Administrator, General Services Administration,
Washington, D.C.*

DEAR MR. BOUTIN: I appreciate receiving your letter of February 14. As you know, it has been my personal desire, strongly reenforced by the expressed policy of Secretary McNamara, that we maintain constructive working relationships with your agency. The fact that I have had no adverse communications from you with respect to our supply management relationships during your term of office has been a source of great satisfaction to me, to Secretary McNamara and to General McNamara. The record of increased volume of supply support by GSA to the Department of Defense attests to the unprecedented progress which has been made.

With respect to the individual questions raised in your letter, General McNamara and I have studied these in detail and are prepared to reaffirm completely all existing agreements, including the one that no item now under GSA management can be withdrawn without the personal review of General McNamara and myself. We will discuss with you personally any case where such withdrawal becomes necessary for reasons of military readiness.

Both General McNamara and I feel that our relationships would be measurably enhanced if you would select and assign to DSA headquarters on a full-time basis, a person having direct access to you, and authority to speak for your agency, so that any problems which warrant your attention and those of General McNamara or myself can be immediately pinpointed and resolved. We are prepared to furnish

suitable office space at DSA headquarters to your representative, and to assure him of continuing access to all responsible officials of DSA and this office.

I have reviewed, in depth, the agreements established in 1960 and subsequently, and feel that they are a sound basis for our continued relationship. Like any set of agreements, they must constantly be subjected to sound interpretation, and both agencies must be prepared to make commonsense exceptions when conditions warrant.

There are two basic principles which govern our policies in regard to the use of external contractual support arrangements—whether they be from private industry or other Government agencies. These principles are:

First, the Department of Defense must retain and directly administer those functions and activities which are essential to the military readiness of the operating forces. These are judgments which can be made only by properly authorized officials of the Department of Defense, although we welcome questions from proper authorities, such as Budget Bureau, GAO and the Congress regarding any particular decisions which they feel should be reexamined.

Second, it is our policy that we should divest ourselves of other activities when outside organizations can perform the service satisfactorily at the same, or less cost, to the Federal Government.

We would welcome an objective review of the present status of GSA-DOD relationships and the supply support role of each agency. We are prepared to join with you in recommending to the Director of the Bureau of the Budget that he conduct such a reexamination.

I am asking my Deputy, Mr. Paul H. Riley, to call you and make arrangements with whomever you designate to promptly investigate and resolve with General McNamara the specific points raised in your letter of February 18.

Again, I appreciate your writing. General McNamara and I will be available to talk with you about any of these matters at your convenience.

Sincerely,

THOMAS D. MORRIS,
Assistant Secretary of Defense.

GENERAL SERVICES ADMINISTRATION,
Washington, D.C., March 1, 1963.

HON. THOMAS D. MORRIS,
*Assistant Secretary of Defense (Installations and Logistics),
Department of Defense, Washington, D.C.*

DEAR MR. MORRIS: Your letter of February 21 reaffirming your desire for maintaining continuing constructive relationship with GSA is most welcome. My letter of February 14 would not have been written had I not strongly felt that recent developments were bound to result in a reversal of the progress which we have thus far made.

I recognize the two basic principles stated in your letter as the current policy guiding our relationships, and the proposals made in my letter are well within these principles. Commissioner Bean will meet with Mr. Riley and General McNamara to resolve these points.

We are both well aware of the interest of the Bureau of the Budget, as well as the Congress, in our negotiations. There is no hesitancy on my part in joining with you in suggesting to the Bureau that a reexamination of our relationships be conducted. However, as far as I am concerned, the general guidelines and policies in our agreement appear adequate, if properly implemented.

I recognize that in a matter of this kind there must be some flexibility, and I would agree that any particular aspect of our agreement might be reviewed as situations develop which we both feel warrant such consideration. In the meantime, the most pressing need is that a concerted effort be made by our staffs and by General McNamara's people to make sure that procedures introduced into operating levels actually carry out current agreements in a manner that is mutually acceptable to us.

Your suggestion that we assign an individual at GSA headquarters with ready access to all responsible officials should prove mutually beneficial, and Mr. Clyde Edgington of Federal Supply Service is designated to serve in this capacity.

You may be assured of my continued personal interest in the proper supply role for GSA in support of military activities.

Sincerely yours,

BERNARD L. BOUTIN, *Administrator.*

APPENDIX 6

MOBILIZATION RESERVES FOR CIVILIAN-TYPE ITEMS

For many years, the use of mobilization reserves has complicated the military and related civilian supply programs. As of June 30, 1962, the military supply systems carried mobilization reserves reported as almost \$11 billion or 27 percent of all stores inventories.

In an attempt to develop the responsibilities of DOD and GSA in common supply areas, the subject of buying, storing, and issuing of mobilization reserve stocks soon comes to the fore.

It is interesting to consider two civilian-type items which have been included in mobilization reserves since guidelines may be developed from a study of these items for civilian-type items generally.

The first case involves coffee. For a period of many years, the military system of buying green beans, with inspection by members of the National Coffee Association, operating coffee roasting and packing plants supervised by trained military officers, and elaborate distribution systems that crisscrossed each other was the matter of congressional investigations and reports by the Second Hoover Commission in considering Government commercial and industrial operations in competition with private enterprises.

The second case is covered by a GAO report of January 31, 1963, to the Congress of the United States entitled "review of the need for the Navy's Mobilization Reserve of Commercial-Type Vehicles."

Since neither coffee nor commercial-type vehicles which are preponderantly civil-type items apparently need to be placed in mobilization reserve, the question arises as to what other essentially civilian-type items that fall between this wide range should be included.

CASE STUDY ON USE OF COFFEE IN THE DEPARTMENT OF DEFENSE

As of December 31, 1962, the DOD had 3,957,000 items in its portion of the Federal Catalog. As of June 30, 1962, the military supply systems inventories amounted to \$40,299,355,000 broken down in these categories:

Peacetime operating	-----	\$15,601,177,000
Mobilization reserve	-----	10,724,600,000
Economic retention	-----	5,454,018,000
Contingency retention	-----	1,039,788,000
Not categorized	-----	1,837,211,000
Excess stocks	-----	5,642,561,000
Total stocks	-----	40,299,355,000

It is noted that \$10.7 billion (27 percent) was carried in mobilization reserve stocks. (See p. 6 for definition.)

DEPARTMENT OF DEFENSE USE OF COFFEE—CIVILIAN-TYPE ITEM

The DOD reports that for calendar year 1962 it used coffee as follows:

	Pounds	Value
Raw or green	None	None
Roasted or processed	48,032,000	\$23,642,000
Essences	977,000	1,263,000
Total	49,009,000	24,905,000

The coffee is bought from commercial roasters of which there are approximately 1400 distributed throughout the United States.

COFFEE IMPORTS

U.S. coffee imports for the past 2 calendar years were:

	Year	Pounds	Value
Raw or green.....	1961	2,962,082,279	\$961,093,230
	1962	3,243,326,300	988,057,366
Roasted or processed.....	1961	7,899,953	2,924,325
	1962	9,275,935	3,090,939
Essences.....	1961	3,506,452	5,393,863
	1962	4,125,954	4,792,805
Total.....	1961	2,973,488,684	969,411,418
	1962	3,256,728,189	995,941,110

PERCENTAGE OF IMPORTS USED BY DOD

The DOD use of 49,009,000 pounds of coffee in calendar year 1962 though large, was less than 2 percent of the U.S. coffee imports that year.

COFFEE INVENTORIES IN INDUSTRY

"Inventories of green coffee in the United States on December 31, 1962, amounted to 3,964,000 bags—the highest level of green coffee inventories reported in this survey since 1946."¹ The bags weigh 132.276 pounds each so the inventory was 524,342,064 pounds or over 10 times the military's annual usage. Furthermore, the average inventory by quarters from 1959 to 1962 exceeded 3 million standard bags. And there was a worldwide green bean inventory of 66 million standard bags as of September 30, 1962.

COFFEE RESERVES IN DOD

The DOD reports that it has no mobilization nor other reserve requirements for coffee at the present time.

SITUATION IN 1951

In April 1951 the Bonner committee members raised the questions as to the need for the Navy to have its own coffee roasting plants. The reply was, "It is one of economy." Pursuing the subject, it was found that there were no cost studies available with all constructive costs included to prove this contention.²

Further investigation revealed that the Army had roasting plants at Atlanta, Chicago, Seattle, and commercially contracted plants at Denver and San Antonio; the Navy had plants at Brooklyn and Oakland; the Marines at Philadelphia. These plants roasted 88 million pounds of coffee in 1951. The military departments, from September 1950 through August 1951 purchased 193,665,000 pounds of green coffee.

Green coffee stored at the various Army storage locations as of October 31, 1951, represented an inventory ranging from 8 to 43 months.³

Green coffee stored at Navy locations as of September 30, 1951, represented an inventory ranging from 1½ to 6½ months.⁴

Authorized levels on hand and due in for Army and Navy were 120 million pounds. Stocks on hand and due in as of April 27, 1951, were 143,971,000 pounds.⁵

In 1951 each Department had an elaborate distribution system of its own, and it is fair to say that the supply management of this one item was big business. The military was in commercial business competing with private industry and could not prove its contention as to economy of operation. In fact, the cost study promised in April 1951 when finally produced was far from convincing.⁶

In view of the small percentage of coffee used by the DOD in comparison to the total U.S. imports and the abundance of the world's supply, it seems that a prudent decision was made to discontinue this civilian-type item in the mobilization reserve.

¹ Department of Commerce Report CB-63-311, dated Feb. 7, 1963.

² Field Conferences on Federal Supply Management Held by a Subcommittee of the Committee on Expenditures in the Executive Departments, House of Representatives, 82d Cong., 1st sess., pp. 183, 232, 443.

³ Staff Report on Coffee Roasting Operations, DOD, Oct. 1, 1952, p. 33.

⁴ *Ibid.*, p. 37.

⁵ Field Conferences, p. 443.

⁶ *Ibid.* pp. 299-405.

REPORT TO THE CONGRESS OF THE UNITED STATES

REVIEW OF THE NEED FOR THE NAVY'S MOBILIZATION RESERVE OF COMMERCIAL-TYPE VEHICLES

By the Comptroller General of the United States, January 1963

COMPTROLLER GENERAL OF THE UNITED STATES,
Washington, January 31, 1963.

B-146765.

*To the President of the Senate and the
Speaker of the House of Representatives:*

Enclosed is our report on review of the need for the Navy's mobilization reserve of commercial-type vehicles.

Our review disclosed that the Navy had purchased and was maintaining a reserve stock of commercial-type vehicles for use in the event of mobilization without determining whether the automotive industry could provide the Navy with the required vehicles in time to meet its mobilization needs if such an emergency occurred. At December 31, 1961, the Navy had 1,959 vehicles valued at about \$6,800,000 in its mobilization stock. The estimated annual cost of maintenance and interest on the Government's investment to keep the reserve stock at that level was about \$550,000. The Navy planned to furnish these vehicles to operating units over a 5-month period if mobilization occurred. Information provided to us by vehicle manufacturers indicated that for the most part this reserve was unnecessary since, in the event of mobilization, these manufacturers had the productive capacity to provide the Navy with all but a negligible quantity of the needed vehicles within the time requirements prescribed by the Navy.

The Navy advised us that it makes a continuous study of industrial production capability and procurement leadtime on items of construction, utilities, and service equipment to determine the quantities of units that must be stocked to meet the earliest phases of mobilization requirements. However, it had not applied this approach to commercial vehicles. The Navy stated further that, after it was advised of our findings, representatives of the Department of Defense met with representatives of the automotive industry to determine industry's capability to satisfy Navy's mobilization needs and to explore the feasibility of entering into firm agreements to assure delivery.

At the meeting with vehicle manufacturers, the representatives of the Department of Defense were assured that industry would have the capability to meet practically all the Navy's needs for high-volume commercial-type vehicles but that studies of the capability of special body and component manufacturers would be necessary before it could be determined whether the remainder of the Navy's needs could be fulfilled within the time limits required by the Navy. The Navy has advised us that such studies are being made and that steps are being taken to determine whether formalized agreements with industry are needed to assure deliveries and avoid complications with other users. Also, the Navy advised that its inventory of high-volume commercial-type vehicles would be transferred to operational use to meet current needs.

On the basis of information we received from the vehicle manufacturers regarding their productive capability, it seems probable that further negotiations with the vehicle manufacturers and the suppliers of special body types and components will result in industry's being able to meet a major portion, if not all, of the Navy's mobilization requirements for commercial-type vehicles. We are asking the Secretary of the Navy to advise us of the outcome of the studies the Navy is making of this matter. In addition, we are recommending that the Department of Defense inquire into mobilization reserves of other commercial-type items to determine whether adequate consideration has been given to industry's ability to meet the mobilization requirements for these items.

Copies of this report are being sent to the President of the United States, the Secretary of Defense, and the Secretaries of the Navy and the Army.

JOSEPH CAMPBELL,
Comptroller General of the United States.

REPORT ON REVIEW OF THE NEED FOR THE NAVY'S MOBILIZATION RESERVE OF
COMMERCIAL-TYPE VEHICLES

The General Accounting Office has reviewed the need for the reserve stocks of commercial-type vehicles held by the Department of the Navy for use in the event of mobilization. This review was made pursuant to the Budget and Accounting Act, 1921 (31 U.S.C. 53), and the Accounting and Auditing Act of 1950 (31 U.S.C. 67).

Our review was directed primarily toward an evaluation of the practicability and economy of the Navy's practice of maintaining stocks of commercial-type vehicles in mobilization reserve and the alternatives available to the Navy to meet its mobilization needs for such vehicles. Our work was performed at the Bureau of Yards and Docks, Washington, D.C., and the construction battalion centers at Port Hueneme, Calif.; Gulfport, Miss.; and Davisville, R.I., as well as at various vehicle manufacturers' plants. Substantially all our work was conducted during the period October 1961 through November 1962.

BACKGROUND

The Navy mobilization reserve of commercial-type vehicles was created as support for a part of the Navy mobilization plan. Mobilization planning in the Navy is the responsibility of the Chief of Naval Operations, who has developed a number of plans covering various phases and periods of mobilization. Plans developed at this level, which are on a broad basis, are disseminated to the various Navy bureaus, offices, and activities for their use in the development of more detailed mobilization plans. Each of these Navy echelons translates that portion of the plans pertaining to the area for which it is responsible into specific requirements such as numbers of major items to be procured, individual facilities to be constructed, or the level of service to be performed.

One segment of the Navy mobilization plan, known as the advanced base functional components program, deals with the requirements for facilities and bases in the event of hostilities. Detailed planning for this program includes a determination of needs for personnel, material, vehicles, and equipment, not only for the construction but also for the operation of the completed facility or base. The Bureau of Yards and Docks (BuDocks), as construction agent for the Navy and as inventory manager for vehicles, construction equipment, and related material, is responsible for the detailed planning for this program. BuDocks is responsible also for determining the requirements for these items, procuring the quantities needed, and holding them in readiness.

The mobilization reserve inventory created to support this program was established at the end of World War II from material on hand at that time and was augmented with material that was on hand after the Korean conflict. Procurements of new items have been made annually, although no funds have been appropriated specifically for this purpose since 1953. Funds, which have been available for procurement of vehicles and construction equipment amounting to about \$1,900,000 in fiscal year 1960 and about \$3,100,000 in fiscal year 1961, have been obtained from reimbursements received from transfers of material to other Navy units for operational use and to other Government agencies or from sales to the public. Material transferred or sold by the Navy either was excess to needs due to a decrease in requirements or was rotated from inventory to permit replacement with newer material.

Stocks of material are stored at the construction battalion centers at Port Hueneme, Calif.; Gulfport, Miss.; and Davisville, R.I. Supporting spare parts are stored at the same locations.

The mobilization reserve inventory totaling about \$120 million includes a number of different types of equipment and material items. For instance, it includes commercial-type vehicles, military vehicles of special design, and heavy construction equipment. Our review was centered upon commercial-type vehicles which include trucks, ambulances, wreckers, and similar items. At December 31, 1961, the inventory of commercial-type vehicles numbered 1,1959 and was valued at about \$6,800,000.

The principal officials of the Department of Defense and the Department of the Navy responsible for administration of activities discussed in this report are listed in appendix I.

FINDINGS AND RECOMMENDATION

Unnecessary retention of stocks of commercial-type vehicles for use in the event of mobilization

Our review disclosed that the Navy had purchased and was maintaining a reserve stock of commercial-type vehicles for use in the event of mobilization without determining whether the automotive industry could provide the Navy with the required vehicles in time to meet its mobilization needs if such an emergency occurred. At December 31, 1961, the Navy had 1,959 vehicles valued at about \$6,800,000 in its mobilization stock. The estimated annual cost of maintenance and interest on the Government's investment to keep the reserve stock at that level was about \$550,000. The Navy planned to furnish these vehicles to operating units over a 5-month period if mobilization occurred. Information provided to us by vehicle manufacturers indicated that for the most part this reserve was unnecessary since, in the event of mobilization, these manufacturers had the productive capacity to provide the Navy with all but a negligible quantity of the needed vehicles within the time requirements prescribed by the Navy.

The Navy is the only military service that maintains a reserve stock of commercial-type vehicles for use in the event of an emergency. The amount of stock maintained in the Navy's reserve varies from time to time. However, at December 31, 1961, the Navy had 1,959 commercial-type vehicles valued at about \$6,800,000 in its reserve stock. These vehicles, all in unused condition, were of 13 different types ranging in size from one-quarter-ton to 15-ton trucks and in age from year 1953 to year 1961 models. (See app. II.) The majority of the vehicles were stored at Port Hueneme, Calif., and Davisville, R.I., with a small number at Gulfport, Miss. This inventory of vehicles was being held by the Navy as partial fulfillment of a stated mobilization requirement for 3,897 vehicles of 15 types. These vehicles, at the standard prices shown by Navy inventory records, would be valued at \$16,727,000. As far as we could ascertain, lack of funds had prevented the Navy from accumulating an inventory commensurate with its stated mobilization requirement of 3,897 vehicles.

We made a review to determine whether the annual cost of maintaining this reserve stock of commercial-type vehicles was significant and whether the Navy's needs could be satisfactorily met without maintaining such a reserve. Our findings in regard to each of these two matters are presented below:

Annual cost of maintaining a mobilization reserve of vehicles estimated at over 8 percent of their value

The Navy records on the costs of preserving and maintaining mobilization reserve stocks identified direct costs for labor and material but did not identify applicable overhead and administrative costs. Therefore it was not possible to obtain exact data on the cost of preserving and maintaining this mobilization reserve stock. However, we did obtain an estimate made by the office of the Chief, Bureau of Yards and Docks, that the annual cost of preserving and maintaining mobilization stocks was approximately 5 percent of the value of the items. At Davisville we made independent estimates of the cost of preserving and maintaining these vehicles, which were substantially in accord with those of the Navy. On this basis, the cost of preserving and maintaining stocks at the December 31, 1961, level would be about \$340,000 annually.

In addition, since the Government borrows much of its funds, the investment of approximately \$6,800,000 of funds necessary to maintain this mobilization reserve inventory tends to increase interest costs. We made computations of annual interest costs based on the average interest rates for Government securities at December 31, 1961, and the investment in mobilization reserve stocks at that date. Our computations indicated that on this basis the annual interest cost was about \$210,000. Thus, when the estimated cost of \$340,000 for preserving and maintaining the stocks and the annual interest cost of \$210,000 on the investment in the inventory are added together, the annual costs of maintaining this mobilization reserve approximates 8 percent of the value of the vehicles held in reserve, or about \$550,000 for stocks of commercial-type vehicles held in mobilization reserve at December 31, 1961.

The reasons for the substantial preservation and maintenance costs became apparent upon consideration of the activities involved in caring for the vehicles. Vehicles procured for mobilization reserve stock were shipped from manufacturers' plants to the storage centers. At the storage centers a detailed inspection was performed on a sample selected from each shipment to determine whether the shipment was acceptable. The purpose of this inspection was to identify de-

iciencies during the period covered by the usual manufacturers' warranty. Next, to prevent deterioration of the vehicles while in storage, the vehicles received special preservation treatment. The degree of preservation applied was governed by the length of time the vehicles were expected to remain in storage and the type of storage facility—open, shed, warehouse, or humidity-controlled warehouse—available at the time of processing. The preservation process consisted of the application or use of the necessary oils, compounds, and other materials needed to provide adequate protection against corrosion and deterioration while the vehicles were in storage. If the workload permitted, this preservation was accomplished shortly after receipt of the vehicles. If preservation was delayed, the vehicles were placed in a "live exercise" program which required that they be operated every 2 months.

After preservation, vehicles were grouped in lots for quality control while in storage. A sample was selected from each lot in storage for a surveillance inspection to determine the condition of the vehicles and whether preservation had been adequate. The frequency of this inspection varied from 3 months for items in open storage to 24 months for those in humidity-controlled warehouses. Generally partial disassembly was performed for this inspection unless the need for complete disassembly was indicated during the inspection. From the type and frequency of defects noted in the sample inspected, a determination was made as to whether repairs should be made to the entire lot. Upon completion of the surveillance inspection the vehicles were represerved and returned to storage.

Ability of industry to meet Navy mobilization needs

Our review disclosed that certain manufacturers of vehicles of the types being held in mobilization reserve were willing to enter into agreements which would provide that in the event of an emergency a portion of their production would be diverted from commercial customers to the Navy. According to these manufacturers' representations as to their productive capabilities, it appeared that in all likelihood they could deliver sufficient vehicles to the Navy within the required time periods to meet the Navy's stated needs.

The Navy requirements for supplying items from mobilization reserve stocks vary. For certain high-priority projects, the reserved items are to be provided within 10 days after mobilization. The remainder of the items are to be provided within 5 months after mobilization. Vehicular support for the high-priority projects totaled 262 vehicles at December 31, 1961, which represented the entire requirement for such items. The requirements for supplying specific items for lower priority projects are not definite but are dependent upon the activation of the military projects that these vehicles are to support. The requirements in terms of supplying specific vehicles within specific numbers of days cannot therefore be foretold accurately. However, information provided by the Navy indicates that delivery of the entire reserve would be required at periodic intervals during a 5-month period, the bulk of the vehicles to be supplied during the first 90 days.

We visited the offices of eight manufacturers of vehicles and asked whether they would consider entering into an agreement with the Navy to furnish specific quantities of vehicles and supporting spare parts in the event of an emergency. We further requested that they designate quantities of the various types which could be delivered to storage centers at 10-, 20-, 30-, and 50-day intervals as well as the effect a request for delivery during the period of changeover to a new production model would have on this delivery schedule. We asked also what the cost to the Government would be to perform such a standby production service.

Manufacturers were very receptive to our inquiry regarding the feasibility of entering into such an agreement. All but one of the eight manufacturers we visited replied to our questions. Of the seven manufacturers that replied, only one indicated that it was unwilling to enter into such an agreement. This particular manufacturer, which produces larger size trucks, stated that nearly every vehicle it manufactures is custom built to customer specifications and that materials to build a quantity of identical trucks are not carried in stock. Accordingly, this manufacturer believed that it would not be practical for it to enter into such an agreement. The remaining manufacturers have all furnished proposed delivery schedules and have unanimously stated that they would perform this standby production service at no cost to the Government. The major delay in furnishing vehicles as needed would occur during the production model changeover period, which might extend delivery schedules from 2 to 4 weeks for any one supplier. Spare parts support could accompany the vehicles to their destinations.

The Navy inventory of commercial-type vehicles at December 31, 1961, was only about 50 percent of the established needs for such vehicles for mobilization

purposes. Therefore, the Navy would not be able to meet its entire mobilization needs from these reserve stocks. However, according to data on productive capabilities furnished us by the vehicle manufacturers, the automotive industry could supply all the vehicles needed by the Navy in less than 60 days. For some items the total quantities could be furnished sooner. For instance, the total quantities of 10 types of the needed vehicles could be furnished in less than 30 days, the total quantities of 7 types could be furnished in less than 20 days, and of 4 types could be furnished in 10 days. Moreover, the data furnished to us by the vehicle manufacturers indicated that industry could meet the Navy requirements for vehicles needed within 10 days for high-priority projects except for a negligible quantity of vehicles.

An example of the ability of industry to furnish needs of specific vehicle types is the $\frac{1}{2}$ -ton pickup truck for which the Navy has the largest requirement. Industry could furnish all the $\frac{1}{2}$ -ton pickup trucks needed within 10 days for high-priority projects. In fact, according to the information furnished to us, within 10 days four manufacturers could furnish 79 percent of the total Navy mobilization needs for $\frac{1}{2}$ -ton pickup trucks. One manufacturer alone could furnish the total needs for these trucks in less than 20 days. The number of vehicles of this type, being held in mobilization reserve at December 31, 1961, was 755 or 82 percent of the quantity of 918 required.

In another case, one manufacturer could furnish the total required quantities of both a 2-ton stake truck (4 x 4) and a 15-ton truck tractor (diesel engine driven) within 10 days. At December 31, 1961, there were no vehicles on hand in the Navy's mobilization reserve to meet these requirements.

A schedule showing the Navy requirement for each vehicle type, the quantity in mobilization reserve inventory at December 31, 1961, and the quantities which industry indicated it could make available within 60 days is included as appendix II to this report.

Each of the vehicle types needed by the Navy is produced by at least two manufacturers, any one of which could furnish the quantities needed for several types within a 5-month period. In general, replies from manufacturers indicated that the quantities stated were only a portion of their productive capacity and that this portion would be diverted from commercial customers. For example, the proposed delivery schedule for four vehicle types submitted by one manufacturer was prepared on the basis of the production from two plants operating one shift and showed that the total quantities of two vehicle types could be furnished in 60 days. This manufacturer stated further that, in the event of an all-out emergency, these vehicles could be produced at these same plants, using two shifts, and could also be produced at eight of its other plants.

Although the vehicle manufacturers have commitments to furnish vehicles to the other military services in the event of an emergency, the vehicles to be furnished to the other services are of the military rather than the commercial type. Mobilization plans permit manufacturers a period of time to complete commercial production in process and to convert production lines to military vehicle production. The Navy would be able to obtain its vehicle requirements during this period, and the delivery of military vehicles to the other services would not be affected.

We found also that having agreements with the vehicle manufacturers would have another advantage that the present method of providing for mobilization needs for these vehicles does not have. In this respect, the number of manufacturers which can furnish vehicles and the widespread locations of their plants offer a greater potential for obtaining vehicles in the event of an attack on this country than does the Navy's method of storing the vehicles at three locations.

In summary, from the manufacturers' replies it seemed likely that most of the investment of Government funds in commercial-type vehicles could be eliminated at substantial annual savings without sacrificing the material-readiness position of the Navy or of the other services.

Agency action

In undertaking major programs, it seems essential that consideration be given at the outset and periodically thereafter to determining whether alternatives are available that would satisfactorily serve the purposes of the Government at substantially less cost. Therefore, when we presented our findings to the Navy we proposed that, before stocks are set aside for mobilization purposes, consideration be given to the ability of industry to meet mobilization needs. We proposed also that the Navy meet with the vehicle manufacturers and explore the feasibility of entering into firm agreements to furnish specified quantities and types of

commercial-type vehicles in an emergency and that, if satisfactory agreements could be made with these manufacturers, the inventory of commercial-type vehicles be transferred to operational use to meet current needs for such vehicles.

The Navy concurred with our proposals and explained that it makes a continuous study of industrial production capability and procurement leadtimes on items of construction, utilities, and service equipment to determine the quantities of units that must be available in prepositioned war reserve stocks to meet the earliest phases of mobilization requirements. However, the Navy had not applied this approach to commercial-type vehicles.

The Navy informed us further that, after it was advised of our findings, representatives of the Office of the Assistant Secretary of Defense (Installations and Logistics) met with representatives of the Army, Navy, and the automobile industry to determine industry's capability to satisfy the mobilization requirements of the Navy and to explore the feasibility of entering into firm agreements that would assure delivery. During this meeting industry representatives assured representatives of the Department of Defense that industry would have the capability to meet about 52 percent of the Navy's gross requirements (approximately \$9,700,000 worth of vehicles).¹ The items constituting this portion of the Navy's requirements were high-volume items such as one-quarter-ton, one-half-ton, and 2-ton trucks. In the remaining cases, involving vehicles with special body, winch, and axle requirements, it appeared that the manufacturers would have difficulty in delivering the vehicles within the time limits required by the Navy, since the automobile manufacturers rely upon other sources for special bodies and particular components and do not normally stock these components. However, further studies are being made with the Army and industry to determine the exact capability of industry to meet the mobilization reserve requirements, especially as they apply to special body types, and to determine whether formalized agreements with industry are needed to assure deliveries and avoid complications with other users. The Navy also advised us that its inventory of high-volume commercial-type vehicles would be transferred to operational use to meet current needs.

The Navy advised us further that it has made every effort to reduce the maintenance cost for mobilization reserve stocks and at the same time maintain the highest possible degree of readiness. The Navy said that, on the basis of experience in the stock storage program, storage activities have been directed to immediately lengthen their surveillance inspection periods from 3 to 9 months for items in open storage and from 24 to 36 months for items in humidity-controlled warehouses, which should substantially reduce the number of inspections disclosed by our review.

The Navy's comments are included in full as appendix III to this report. (See p. 19.)

Conclusion and recommendation

On the basis of information we received from the vehicle manufacturers regarding their productive capability, it seems that further negotiations with the vehicle manufacturers and the suppliers of special body types and component should result in industry's being able to meet a major portion, if not all, of the Navy's mobilization requirements for commercial-type vehicles. We are asking the Secretary of the Navy to advise us of the outcome of the studies the Navy is making of this matter. In addition, we recommend that the Department of Defense inquire into mobilization reserves of other commercial-type items to determine whether adequate consideration has been given to industry's ability to meet the mobilization requirements for these items.

¹ The mobilization reserve requirements considered in these discussions were the August 1962 requirements, which were 4,298, or 401 more vehicles than were included in Navy mobilization reserve requirements at the time of our review. Of the 401 vehicles added to mobilization requirements since Dec. 31, 1961, 362 were types not included in our inquiries to vehicle manufacturers, and 354 of the 362 were special-purpose vehicles such as fuel trucks, sewage trucks, tire-servicing trucks, and oilfield trucks.

APPENDIX I

Principal officials of the Department of Defense and the Department of the Navy responsible for administration of the activities discussed in this report

	Tenure	
	From--	To--
DEPARTMENT OF DEFENSE		
Secretary of Defense:		
Charles E. Wilson.....	January 1953.....	October 1957.
Nell H. McElroy.....	October 1957.....	December 1959.
Thomas S. Gates, Jr.....	December 1959.....	January 1961.
Robert S. McNamara.....	January 1961.....	Present.
DEPARTMENT OF THE NAVY		
Secretary of the Navy:		
Robert B. Anderson.....	February 1953.....	May 1954.
Charles S. Thomas.....	May 1954.....	April 1957.
Thomas S. Gates, Jr.....	April 1957.....	June 1959.
William B. Franke.....	June 1959.....	January 1961.
John B. Connally.....	January 1961.....	December 1961.
Fred Korih.....	January 1962.....	Present.
Under Secretary of the Navy:		
Thomas S. Gates, Jr.....	October 1953.....	April 1957.
William B. Franke.....	April 1957.....	June 1959.
Fred A. Bantz.....	June 1959.....	January 1961.
Paul B. Fay, Jr.....	February 1961.....	Present.
Assistant Secretary of the Navy (Installations and Logistics): (Office redesignated January 1961, formerly Assistant Secretary of Navy) (Materiel):		
Raymond H. Fogler.....	October 1954.....	January 1957.
Fred A. Bantz.....	April 1957.....	April 1959.
Cecil P. Milne.....	April 1959.....	January 1961.
Kenneth E. BeLien.....	February 1961.....	Present.
Chief of Naval Operations:		
Admiral William B. Carney.....	August 1953.....	August 1955.
Admiral Arleigh A. Burke.....	August 1955.....	July 1961.
Admiral George W. Anderson, Jr.....	August 1961.....	Present.
Chief, Bureau of Yards and Docks:		
Rear Admiral John R. Perry.....	November 1953.....	September 1955.
Rear Admiral Robert H. Meade.....	October 1955.....	September 1957.
Rear Admiral Eugene J. Peltier.....	December 1957.....	January 1962.
Rear Admiral Peter Corradi.....	February 1962.....	Present.

APPENDIX II

Schedule of vehicle requirements, mobilization reserve inventory, and quantities available from industry

Description	At Dec. 31, 1961		Available from industry within 60 days
	Total quantity required	Quantity on hand	
1. Ambulance, 1 ton 4 x 4.....	108	19	238
2. Truck, cargo, 1/4 ton 4 x 4.....	185	84	6,020
3. Truck, cargo, 1/2 ton 4 x 2.....	918	755	10,510
4. Truck, cargo, 1 ton 4 x 4.....	452	167	2,336
5. Truck, cargo, 1 ton 4 x 4 (4 man cab).....	92	5	294
6. Truck, stake, 2 ton 4 x 2.....	325	222	2,362
7. Truck, stake, 2 ton 4 x 4.....	153	1,405
8. Truck, stake, 5 ton 6 x 4.....	554	233	1,599
9. Truck, dump, 5 ton 6 x 4 w/w ¹	264	94	564
10. Truck, dump, 5 ton 6 x 4 w/ow ²	431	212	1,328
11. Truck, tractor, 5 ton 6 x 4 w/ow ²	170	128	790
12. Truck, tractor, 10 ton 6 x 4.....	13	5	523
13. Truck, tractor, 15 ton DED ³	14	194
14. Truck, tractor, 15 ton GED ⁴	207	30	522
15. Truck, wrecker, 5 ton 6 x 4.....	11	5	496
Total.....	3,897	1,959	29,174

- ¹ With winch.
² Without winch.
³ Diesel engine driven.
⁴ Gasoline engine driven.

NOTE.—The numbers 4 x 4, 4 x 2, and so forth in the vehicle descriptions indicate the type of drive. The first number expresses the number of wheels and the second the number of wheels that are power driven.

APPENDIX III

DEPARTMENT OF THE NAVY,
OFFICE OF THE SECRETARY,
Washington, D.C., November 7, 1962.

Mr. JAMES H. HAMMOND,
Associate Director, Defense Accounting and Auditing Division,
U.S. General Accounting Office, Washington, D.C.

DEAR MR. HAMMOND: The Secretary of Defense has asked me to reply to your letter of August 1, 1962, which requested comment on the GAO draft report on commercial-type vehicles held for mobilization reserve by the Navy.

I am enclosing the Navy position on the report.

Sincerely yours,

KENNETH E. BELIEU,
Assistant Secretary of the Navy,
(Installations and Logistics).

Enclosure: (1) Navy position on GAO draft report of August 1, 1962, on review of commercial-type vehicles held for mobilization reserve by the Department of the Navy (OSD case No. 1653).

NAVY POSITION ON GAO DRAFT REPORT OF AUGUST 1, 1962, ON REVIEW OF COMMERCIAL-TYPE VEHICLES HELD FOR MOBILIZATION RESERVE BY THE DEPARTMENT OF THE NAVY

SUMMARY

The subject report reviewed the procurement and stocking of commercial-type automotive vehicles to meet Navy mobilization requirements.

The General Accounting Office contends that agreements can be reached with manufacturers of automotive vehicles that would assure the Navy of delivery of its total mobilization vehicle requirements within the time phasing required after M-day. Such an agreement would eliminate the need for Navy to maintain vehicle stocks. GAO recommends that, if feasible, the Navy enter into such agreements and the present inventory of commercial vehicles be transferred to operational use to meet current needs.

The Department of the Navy concurs with the recommendation that "consideration be given to the ability of industry to meet mobilization needs." Representatives of the Assistant Secretary of Defense (Installations and Logistics) met with representatives of the Army, Navy, and the automotive industry to determine industry's capability to satisfy the mobilization requirements of the Navy and to explore the feasibility of entering into firm agreements that would assure delivery. In this meeting, industry indicated that industrial capability would provide a substantial portion of the Navy's mobilization requirement; however, nothing was indicated to suggest that industry can meet the total requirements nor that effective contracts can be presently made which will be adequate to insure future need at some unspecified date. Based on industry's assurance that they have a capability to meet a substantial portion of the Navy's mobilization requirement within the time phasing required by the Navy, the mobilization reserve stock to meet the overall requirement of 4,298 vehicles for the period M to M plus 5 months can be reduced by about 52 percent (approximately \$9.7 million). Industry informed DOD representatives that they can provide high-density items, such as $\frac{1}{4}$ -ton, $\frac{1}{2}$ -ton and 2-ton vehicles.

Further studies are being made with the Army and industry to substantiate the exact amount of the reductions, especially as they apply to special body types, and to determine the nature of a formalized agreement with industry to assure deliveries and avoid conflicts with other users. The present inventories of high-density commercial type vehicles will be transferred to operational use to meet current needs.

DISCUSSION

The Navy is unique among the services in maintaining a reserve stock of commercial vehicles for use in the event of an emergency. Based on economic cost analysis and full consideration of military requirements, the Navy decided in 1954 to convert the majority of the Mobilization Reserve requirements for automotive vehicles from tactical to commercial type. Initial cost was reduced by 40 percent and the ability to rotate stock was greatly increased, thus reducing the cost of maintenance and loss through obsolescence, and at the same time permitting the modernization and balancing of stocks.

The Navy makes a continual study of industrial production capability and procurement leadtimes on items of construction, utilities, and service equipment to determine the quantities of units that must be available in prepositioned war reserve stocks to meet the early phased outloading requirements. A similar approach, however, has not been applied to commercial vehicles. Heretofore, the Navy has not conducted studies or sought agreements on commercial vehicles, but has relied on programing furnished by the Army which has procurement and industrial mobilization planning responsibility. The Navy is now placing specific requirements on the Army for further study of industry's capability to meet Navy's mobilization needs.

Another problem discussed by GAO in their report was the cost to maintain commercial vehicles in storage. The Navy has made every effort to reduce the maintenance cost for Mobilization Reserve stock and at the same time retain the highest possible degree of readiness. Based on experience of the stock storage program, storage activities were directed to immediately lengthen the surveillance inspection periods from 3 to 9 months for items in open storage and from 24 to 36 months for items in humidity-controlled warehouses. This substantially reduced the number of surveillance inspections from those reported by GAO.

The conclusory recommendations of the GAO draft report are commented on below. Each recommendation is cited together with the Navy comment. Because the second and third recommendations are derivative of the first, comment on the first will substantially supply the Navy position on the essential point raised by the report.

1. *Recommendation.*—That " * * * before stocks are set aside for mobilization purposes, consideration be given to the ability of industry to meet mobilization needs."

Comments.—The Navy concurs with this recommendation as to future reserve, but has heretofore had no basis for concluding that industry has been willing and able to meet such mobilization requirements. Based on industry's assurance of its capability, as developed at the aforementioned meeting, the Navy will now adjust its mobilization planning and will rely on the automotive industry to provide the mobilization requirements for certain high-density production line items such as $\frac{1}{4}$ -, $\frac{1}{2}$ -, and 2-ton cargo trucks. Industry cannot furnish all of the vehicle types within the time phasing required by the Navy because of special body,

winch, and axle requirements on Navy-type vehicles. Production of the chassis presents no problem, but the prime manufacturer must rely on other sources for special bodies and peculiar components. He sends the chassis to a body builder for completion. Special bodies are not normally stocked, limiting industry's capability to provide large type vehicles before M+30 days. The availability of Navy-type vehicles after M+30 days has been taken into consideration and the Navy can reduce the planned stock of commercial vehicles by approximately 52 percent. Further study is being made with the Army and industry to determine the exact amount of the reductions, especially as they apply to special body types.

2. *Recommendation.*—That “* * * that the Navy contact the vehicle manufacturers and explore the feasibility of entering into firm agreements to furnish specified quantities and types of commercial-type vehicles in an emergency.”

Comment.—Because the Army is responsible for procurement and industrial mobilization planning, the Navy requested the Department of the Army to explore the feasibility of entering into firm agreements. At the aforementioned meeting, the industry representatives questioned the feasibility and legality of binding delivery agreements between the Navy and the manufacturers and indicated that a documented agreement was not necessary to assure delivery of vehicles available from production. The question whether a formal agreement can best provide the means to insure receipt, by the Navy, of such equipment is being investigated further.

3. *Recommendation.*—That “* * * if satisfactory agreements can be made with these manufacturers, the present inventory of commercial-type vehicles be transferred to operational use to meet current needs for such vehicles.”

Comment.—The Navy concurs. Subject to the foregoing, it can be concluded that with or without formalized agreements, industry can supply certain sizes and types of vehicles on an acceptable timetable to satisfy mobilization outloading requirements. The present inventory of these particular commercial-type vehicles will be transferred to operational use to meet current needs. Navy will seek to develop a formal agreement with the automotive industry with respect to all types of commercial vehicle requirements.

