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BACKGROUND MATERIAL ON ECONOMIC
ASPECTS OF MILITARY PROCUREMENT
AND SUPPLY—1964

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FOR THE
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OF THE
JOINT ECONOMIC COMMITTEE
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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, April 1964" to update a similar report of March 1963.

This study was prepared by temporary staff consultant Ray Ward in connection with the Subcommittee on Defense Procurement's hearings on "The Impact of Defense Procurement," to be held April 16 and 21, 1964.

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 and related civilian 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 1964

INTRODUCTION

The Subcommittee on Defense Procurement of the Joint Economic Committee held public hearings on economic aspects of military procurement and supply in January 1960,¹ June 1961,² and March 1963.³ Its reports of October 1960⁴ and July 1963⁵ contained specific recommendations aimed at the elimination of unnecessary duplication and waste in the military supply and service activities and in those of the civilian agencies.

Chairman Douglas has consistently emphasized that the subcommittee's interests were economic and would be limited to a study of the impact of Federal Government practices in procurement, shipping, warehousing, disposal, etc., on the Nation's economy. The subcommittee, therefore, has not been concerned with questions of military strategy, weapons, size of forces, etc.

STATEMENT OF SENATOR DOUGLAS IN 1960 REPORT⁴

Senator Douglas emphasized the serious impact of defense procurement and waste in these words:

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.

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.

² "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. June 12, 1961.

³ "Impact of Military Supply and Service Activities on the Economy," hearings before the Subcommittee on Defense Procurement of the Joint Economic Committee, 88th Cong., 1st sess., Mar. 28, 29, Apr. 1, 1963.

⁴ "Economic Aspects of Military Procurement and Supply," report of the Subcommittee on Defense Procurement to the Joint Economic Committee, 86th Cong., 2d sess.

⁵ "Impact of Military Supply and Service Activities on the Economy," report of the Subcommittee on Defense Procurement to the Joint Economic Committee, 88th Cong., 1st sess., July 1963.

The seriousness of the prolonged waste in military procurement, supply management, and disposal activities as revealed by the January 1960 hearings and from reports and studies of congressional committees, the General Accounting Office, the Hoover Commission, and other investigating groups and the lack of aggressive, positive organization and management action persuaded Chairman Douglas of the need to convey to Secretary of Defense-designate McNamara his long-smoldering concern and that of the other members of the subcommittee. His letter of December 30, 1960, stated:

DEAR MR. McNAMARA: May I first congratulate you on your appointment as Secretary of Defense. I want to wish you well in this post which is of the highest responsibility and where the opportunity to serve the country is unsurpassed.

I am writing to draw your attention to my concern, and I think that of almost every Member of Congress, and of private persons who have gone into it, over what is "appalling" and even "scandalous" waste in the Defense Department's procurement and supply system. I am enclosing a number of reports and other documents concerning this. May I mention only a few points.

(1) Some 86 percent of all contracts—both in dollar and number—are now "negotiated" rather than let by competitive bidding. This is inexcusable and results in millions on dollars in excess prices (maybe billions). In fact, in the reports on the latest Defense Department appropriation bill, both the House and Senate urged radical reform in this area. We have been met, however, by little more than a series of justifications of the existing system, instead of action to carry out the congressional mandate.

(2) In the last 2 years alone, the General Accounting Office has submitted over 50 reports going into detail concerning waste in procurement and supply. The testimony of the Comptroller General before my committee indicates that these are representative samples of a much larger universe. Almost every time they go into this question, malpractices and bad practices are found.

(3) There is almost a complete lack of integration between and among the supply systems of the individual services and, equally important, within the services. There is vast duplication of personnel, inventories, warehousing, etc., which can only be solved by centralizing the supply systems. This should be done immediately, at least with respect to those items which are common to all of the services.

(4) The stock fund system has resulted in the accumulation of excess stocks and cash. Each service seems to operate them in a different way. There is no common practice concerning them. They often involve a double appropriation. In addition, the reimbursable requirements have had the effect of preventing other services and agencies from using stock fund materials which have subsequently been disposed of as surplus.

(5) The amount and disposal of surplus property is also of scandalous proportions. We are now selling off some \$8 to \$10 billion of surplus supplies. The question arises, "What kind of a supply system do we have which could conceivably generate such amounts?" In addition, we are receiving only 2 to 3 cents on the dollar when they are disposed of.

Furthermore, there are literally hundreds of examples of concurrent buying and selling—where one agency of the Government buys new supplies which another agency is at the same time disposing of as surplus. A recent Budget Bureau study showed that this was true in two-thirds of the examples, and in their study the equipment was new, available in the same geographic area, etc.

(6) The Defense Department has at hand one agency which would radically help in solving some of these problems. That is the Armed Forces Supply Support Center. But it is not being properly used. Services have, in effect, a veto over its activities and its hands have been tied.

At the moment the Armed Forces Supply Center is attempting, under great difficulties, to match the excess or surplus supply inventory with requirements of the services. But much more is needed. There should be a complete inventory of all supplies so that new procurement or requirement can be matched against existing stocks. This is not now true and calls for a central agency where all procurement requests can go and be matched against existing supplies before new purchases are made.

In this connection also, many of us believe that the services have excessive quantities in their various inventory categories; i.e., mobilization reserve, etc.

I believe that great savings can be made in procurement and supply in the Defense Department. To summarize—there must be more competitive bidding, greater centralization of purchase and supply, much more efficient handling of the surplus supply and disposal system, and the reform of the stock fund and reimbursable requirements.

Fortunately, these reforms can take place under existing law. The Defense Department does not need legislation to effect these reforms.

I think the motto of the Department should be to "use it up, wear it out, make it do," wherever possible. As a minimum, I believe that \$2 to \$3 billion per year could be saved by merely beginning on these reforms. These savings should then be translated into more missiles, tanks, and combat troops so that our country can be more adequately defended and our people protected.

With best wishes.

Faithfully,

PAUL H. DOUGLAS.

Secretary McNamara's response to the challenge has been phenomenal. He instituted a 5-year cost reduction program and reports that actual savings on June 30, 1963, after the first full year of operation under the plan were almost \$1.4 billion. Further, the program aims at a recurring annual reduction in overall costs of \$4 billion by fiscal year 1967 (see app. 2, p. 45, for details of the program).

DEFENSE SUPPLY AGENCY (DSA)

Secretary McNamara quickly recognized the need to achieve more effectiveness and economy in the very diffused common supply area and established the DSA to become effective on January 1, 1962. Seventeen principal commands (app. 1, p. 31) and an administrative office have now been incorporated into the Agency which will manage 1.4 million items with an estimated inventory value of \$2.3 billion by the end of fiscal year 1964.

DSA was given two primary objectives, (1) 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; and (2) to furnish this support at the lowest feasible cost.

Despite the monumental task of organizing and staffing DSA from many units, it has supported the military services without interruption or impairment during the entire period of its existence including the Cuban crisis. In so doing, it has projected cost reduction goals of \$39.3 million by the end of fiscal year 1964 with personnel space reductions of 5675 (see app. 1, p. 31, for full details).

BUDGET MESSAGE, FISCAL YEAR 1965

President Johnson's budget message for fiscal year 1965 contains an important statement concerning the benefits to be derived from the DOD cost reduction program:

The urgent and necessary program increases recommended in this budget will be financed out of the savings made possible by strict economy measures and by an exhaustive screening of existing programs. As a result of the highly successful cost reduction program launched in 1962 by the Secretary of Defense, the 1965 program of the Department of Defense will require \$2 billion less in appropriations than would otherwise be the case—a sum greater than the 1965 cost of the new programs I am recommending to the Congress.

This statement confirms and supports the thought and challenge expressed by Senator Douglas in the subcommittee's 1960 report (supra, p. 1).

A FEDERAL SUPPLY AND SERVICES SYSTEM

The Congress enacted the Federal Property and Administrative Services Act⁶ in 1949 by a unanimous vote and intended that it would provide for the Federal Government an economical and efficient system for supply and services. The declaration of policy provides:

SEC. 2. It is the intent of the Congress in enacting this legislation to provide for the Government an economical and efficient system for (a) the procurement and supply of personal property and nonpersonal services, including related functions such as contracting, inspection, storage, issue, specifications, property identification and classification, transportation and traffic management, establishment of pools or systems for transportation of Government personnel and property by motor vehicle within specific areas, management of public utility services, repairing and converting, establishment of inventory levels, establishment of forms and procedures, and representation before Federal and State regulatory bodies; (b) the utilization of available property; (c) the disposal of surplus property; and (d) records management.

The General Services Administration (GSA) which was established by the act in 1949 has been slowly redeeming the responsibilities placed upon it (app. 4, p. 151). Some progress has been made in recent years in eliminating duplications and overlappings between the military and civilian supply and services systems. Within the past year the DOD transferred to the GSA the responsibility for providing handtools and paints for the DOD. A memorandum of agreement (app. 5, p. 171) dated January 7, 1964, governs DOD and GSA supply management relationships and when implemented may become an important step toward the achievement of a Federal Government "system" as contemplated by the law. (See app. 5, p. 169, for background on the agreement.)

⁶ Public Law 152, 81st Cong.

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 \$171 billion at the end of fiscal year 1963. Real property holdings have risen in the same period from \$21 to \$37 billion and personal property holdings from \$107 to \$133 billion.

It is interesting to note that "supply systems inventories" declined from a high of \$54 billion in 1957 to \$40 billion in 1963.

TABLE 1.—DOD property holdings as of June 30¹

[In millions of dollars]

Total and type of property	1955	1956	1957	1958	1959	1960	1961	1962	1963
Total.....	128,694	134,082	146,021	149,465	150,660	154,617	158,508	164,835	171,364
Real.....	21,343	22,918	24,892	26,891	29,689	31,997	34,038	35,378	36,565
Personal.....	107,351	111,164	121,129	112,574	120,971	122,620	124,470	129,457	134,799
Supply systems.....	50,780	50,974	53,799	47,652	44,467	42,002	40,837	40,652	40,096
Stock funds.....	8,153	9,772	10,970	8,913	8,162	7,312	6,413	6,154	6,527
Appropriated funds.....	42,627	41,202	42,829	38,739	36,305	34,690	34,424	34,498	33,569

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 8 years.

TABLE 2.—Expenditures for Department of Defense military functions as a percentage of gross national product, fiscal years 1939-63

[In 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	1952.....	338.8	38.9	11.5
1940.....	95.7	1.5	1.6	1953.....	359.7	43.6	12.1
1941.....	110.5	6.0	5.4	1954.....	362.0	40.3	11.1
1942.....	140.5	23.6	16.8	1955.....	377.0	35.5	9.4
1943.....	178.4	62.7	35.1	1956.....	408.5	35.8	8.8
1944.....	202.8	75.8	37.4	1957.....	433.0	38.4	8.9
1945.....	218.3	80.0	36.7	1958.....	440.2	39.1	8.9
1946.....	202.8	42.0	20.7	1959.....	468.7	41.2	8.8
1947.....	223.3	13.8	6.2	1960.....	494.8	41.2	8.3
1948.....	246.6	10.9	4.4	1961.....	508.6	43.2	8.5
1949.....	261.6	11.6	4.4	1962.....	539.4	46.8	8.7
1950.....	263.8	11.9	4.5	1963.....	568.3	48.3	8.5
1951.....	310.8	19.8	6.4				

Source: OASD Comptroller FAD-119 (fiscal year 1965.1).

Tables 3 and 4 show a decrease of 80,852 military personnel at a lower cost of \$249,966,000 between June 30, 1962, and June 30, 1963. At the same time the number of civilian personnel decreased by 19,017 with a payroll increase of \$283,126,000.

TABLE 3

	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 ³
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	88,920,000
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	1,451	2,700,000
Illinois.....	49,079	194,350,000	30,006	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	199,932,000	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	160,617,000
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.

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

	Active duty military personnel		Civilian employees	
	Number, June 30, 1963 ¹	Estimated annual pay and allowances ²	Number, June 30, 1963	Estimated annual payroll ³
United States, total.....	1,688,121	\$6,698,101,000	951,231	\$6,111,344,000
Alabama.....	23,716	94,665,000	33,966	216,308,000
Alaska.....	31,778	129,484,000	5,882	46,226,000
Arizona.....	20,169	84,286,000	7,144	45,565,000
Arkansas.....	14,361	59,970,000	4,523	28,716,000
California.....	221,934	846,675,000	140,121	899,291,000
Colorado.....	36,856	150,669,000	14,470	92,207,000
Connecticut.....	5,631	21,315,000	2,825	18,169,000
Delaware.....	8,092	36,055,000	1,278	8,173,000
District of Columbia.....	³ 18,636	72,279,000	29,348	188,075,000
Florida.....	66,602	276,718,000	24,145	155,018,000
Georgia.....	93,043	355,677,000	33,976	216,830,000
Hawaii.....	41,018	152,207,000	18,396	135,559,000
Idaho.....	6,267	27,412,000	486	3,104,000
Illinois.....	45,473	179,806,000	28,986	184,880,000
Indiana.....	8,705	36,451,000	11,927	76,253,000
Iowa.....	1,482	6,316,000	542	3,445,000
Kansas.....	36,824	148,134,000	5,091	32,385,000
Kentucky.....	48,655	179,705,000	11,565	73,511,000
Louisiana.....	32,452	128,471,000	7,234	46,097,000
Maine.....	14,216	62,293,000	1,652	10,594,000
Maryland.....	³ 48,214	187,136,000	38,425	245,384,000
Massachusetts.....	32,355	133,691,000	26,109	166,842,000
Michigan.....	22,638	98,978,000	11,791	75,134,000
Minnesota.....	5,392	22,537,000	1,958	12,474,000
Mississippi.....	25,017	110,789,000	5,888	37,557,000
Missouri.....	28,596	111,111,000	15,330	97,515,000
Montana.....	10,484	46,846,000	1,071	6,840,000
Nebraska.....	19,224	85,141,000	4,519	28,782,000
Nevada.....	8,142	35,309,000	2,670	17,140,000
New Hampshire.....	8,576	37,004,000	9,970	64,173,000
New Jersey.....	42,485	165,726,000	25,685	163,451,000
New Mexico.....	21,833	93,078,000	10,966	70,039,000
New York.....	39,167	160,584,000	51,676	330,675,000
North Carolina.....	88,366	313,289,000	10,044	64,330,000
North Dakota.....	11,000	49,222,000	1,180	7,528,000
Ohio.....	19,153	83,121,000	38,642	247,837,000
Oklahoma.....	37,291	147,753,000	25,061	160,145,000
Oregon.....	5,201	22,890,000	3,613	22,952,000
Pennsylvania.....	15,225	57,684,000	69,046	442,378,000
Rhode Island.....	6,229	23,354,000	8,285	53,340,000
South Carolina.....	41,086	159,178,000	14,570	93,532,000
South Dakota.....	6,674	29,802,000	1,668	10,613,000
Tennessee.....	17,675	68,368,000	6,294	39,922,000
Texas.....	178,281	738,551,000	58,856	375,479,000
Utah.....	5,529	19,102,000	19,333	123,278,000
Vermont.....	475	2,053,000	64	408,000
Virginia.....	³ 88,059	331,643,000	79,029	506,928,000
Washington.....	48,561	194,194,000	21,963	140,780,000
West Virginia.....	598	2,384,000	958	6,075,000
Wisconsin.....	4,575	19,484,000	2,171	13,859,000
Wyoming.....	4,062	18,159,000	869	5,548,000
Undistributed.....	23,050	83,352,000	-----	-----
Washington, D.C., metropolitan area.....	³ 62,094	242,706,000	76,490	489,914,000
District of Columbia.....	³ 18,636	72,279,000	29,348	188,075,000
Maryland.....	³ 11,802	50,287,000	14,257	91,377,000
Virginia.....	³ 31,656	120,140,000	32,885	210,462,000

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. 16, 1963.

SUPPLY SYSTEMS INVENTORIES (TABLE 5)

A breakdown of "Supply systems inventories" from fiscal years 1958 through 1963 shows that the value of stocks in peacetime operating, mobilization reserve and economic retention have been relatively stable while the category of excess stocks has been reduced

from \$10.4 billion to \$5.4 billion during the period and contingency retention stocks were reduced sharply from June 30, 1962, to June 30, 1963.

MOBILIZATION RESERVE

Mobilization reserve stocks were reported at \$10.921 billion as of June 30, 1963, broken down by military services as follows:

Army	\$5, 202, 465, 000
Navy	3, 666, 973, 000
Marine Corps	659, 809, 000
Air Force	875, 608, 000
Defense Supply Agency	516, 021, 000
Total	\$10, 920, 876, 000

¹ "Federal Real and Personal Property Inventory Report of the United States as of June 30, 1963," Committee on Government Operations, U.S. House of Representatives, 88th Cong., 1st sess., p. 113.

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

(In millions of dollars)

Total and inventory strata	1958	1959	1960	1961	1962	1963
Total	46, 585	44, 203	41, 727	40, 537	40, 299	39, 684
Unstratified	2, 440	3, 056	2, 083	1, 819	1, 837	1, 425
Total stratified	44, 145	41, 147	39, 644	38, 717	38, 462	38, 259
Peacetime operating ²	14, 538	15, 306	15, 657	14, 722	15, 601	15, 379
Mobilization reserve ³	12, 134	11, 530	10, 893	11, 030	10, 725	10, 921
Economic retention ⁴	5, 593	4, 703	6, 618	6, 343	5, 454	5, 912
Contingency retention ⁵	1, 050	1, 611	1, 361	1, 246	1, 040	5, 636
Excess stocks ⁶	10, 418	7, 146	5, 115	5, 377	5, 643	6, 411

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 leadtime 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.

SCOPE OF PROCUREMENT ACTIVITIES

The net value of military procurement actions amounted to \$28.1 billion in fiscal year 1963 or an increase of \$300 million over fiscal year 1962.

TABLE 6.—Net value of military procurement actions in the United States and possessions, fiscal years 1951-63

(In 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	1956	18.2	1960	22.5
1952	42.2	1957	19.9	1961	24.3
1953	28.4	1958	22.8	1962	27.8
1954	11.9	1959	23.9	1963	28.1
1955	15.5				

Source: "Military Prime Contract Awards and Subcontract Payments, July 1962-June 1963," Office of the Secretary of Defense.

NET VALUE OF PROCUREMENT ACTIONS BY STATES, FISCAL YEARS 1961-63
(TABLE 7)

The percentage breakdown of military procurement actions by States and the District of Columbia shows for fiscal year 1963:

Percent of total:	Number of States	Percent of total—Con.	Number of States
Over 20.....	1	3 to 4.....	1
10 to 15.....	0	2 to 3.....	4
5 to 10.....	3	1 to 2.....	10
4 to 5.....	4	0 to 1.....	28

TABLE 7.—Net value of military procurement actions by fiscal year, fiscal years 1961 1962, and 1963¹

[Dollars in thousands]

State	Fiscal year 1961		Fiscal year 1962		Fiscal year 1963	
	Amount	Percent	Amount	Percent	Amount	Percent
Total, United States ²	\$24,304,677	-----	\$27,800,407	-----	\$28,107,882	-----
Not distributed by State ³	2,192,231	-----	2,761,717	-----	2,874,642	-----
State totals ⁴	22,112,446	100.0	25,038,690	100.0	25,233,240	100.0
Alabama.....	105,564	.5	154,419	.6	194,990	.8
Alaska.....	91,797	.4	63,320	.3	103,476	.4
Arizona.....	244,837	1.1	152,951	.6	285,751	1.1
Arkansas.....	46,586	.2	84,798	.3	39,114	.2
California.....	5,276,760	23.9	5,993,244	23.9	5,835,670	23.1
Colorado.....	465,904	2.1	565,279	2.3	444,196	1.8
Connecticut.....	1,018,500	4.6	1,213,067	4.8	1,048,449	4.2
Delaware.....	28,180	.1	47,197	.2	67,035	.3
District of Columbia.....	149,551	.7	181,954	.7	238,120	.9
Florida.....	492,654	2.2	645,478	2.6	583,237	2.3
Georgia.....	300,529	1.4	337,478	1.4	423,290	1.7
Hawaii.....	26,916	.1	31,875	.1	45,206	.2
Idaho.....	14,131	.1	26,121	.1	8,634	(*)
Illinois.....	437,250	2.0	531,008	2.1	486,067	1.9
Indiana.....	353,202	1.6	571,184	2.3	486,759	1.9
Iowa.....	126,819	.6	179,153	.7	130,406	.5
Kansas.....	538,687	2.4	393,507	1.6	331,687	1.3
Kentucky.....	45,778	.2	43,510	.2	55,725	.2
Louisiana.....	139,336	.6	244,036	1.0	195,341	.8
Maine.....	96,977	.4	79,585	.3	58,409	.2
Maryland.....	527,591	2.4	459,491	1.9	606,365	2.4
Massachusetts.....	1,072,370	4.8	1,310,055	5.2	1,060,165	4.2
Michigan.....	590,480	2.7	677,786	2.7	633,047	2.5
Minnesota.....	188,652	.9	297,306	1.2	273,757	1.1
Mississippi.....	69,395	.3	100,220	.4	186,039	.7
Missouri.....	337,500	1.5	545,553	2.2	686,111	2.7
Montana.....	94,538	.4	31,264	.1	79,349	.3
Nebraska.....	51,123	.2	53,172	.2	33,559	.1
Nevada.....	8,850	(*)	8,246	(*)	13,143	.1
New Hampshire.....	104,589	.5	58,926	.2	51,174	.2
New Jersey.....	949,737	4.3	1,063,096	4.3	1,251,608	5.0
New Mexico.....	63,540	.3	60,729	.2	61,642	.2
New York.....	2,642,803	12.0	2,668,744	10.7	2,500,146	9.9
North Carolina.....	237,196	1.1	268,990	1.1	258,987	1.0
North Dakota.....	12,980	.1	96,627	.4	64,855	.3
Ohio.....	1,004,245	4.5	1,139,825	4.5	1,345,686	5.3
Oklahoma.....	123,433	.6	126,121	.5	111,204	.5
Oregon.....	27,626	.1	46,129	.2	41,777	.2
Pennsylvania.....	804,389	3.6	952,058	3.8	837,452	3.5
Rhode Island.....	25,282	.1	57,966	.2	46,970	.2
South Carolina.....	40,804	.2	65,212	.3	57,747	.2
South Dakota.....	27,626	.1	112,682	.5	80,630	.3
Tennessee.....	144,069	.7	182,794	.7	183,478	.7
Texas.....	1,138,471	5.1	1,006,253	4.0	1,203,123	4.8
Utah.....	349,611	1.6	268,596	1.2	408,127	1.6
Vermont.....	16,176	.1	18,421	.1	12,258	.1
Virginia.....	505,158	2.3	446,183	1.8	484,989	1.9
Washington.....	646,359	2.9	921,115	3.7	1,041,581	4.1
West Virginia.....	61,884	.3	133,782	.5	162,221	.7
Wisconsin.....	221,749	1.0	258,735	1.0	219,427	.9
Wyoming.....	24,252	.1	22,551	.1	125,081	.5

¹ See "Notes on Coverage, on p. 10.

² Includes all contracts awarded for work performance in the United States. The United States includes the 50 States, the District of Columbia, U.S. possessions, the Canal Zone, the Commonwealth of Puerto

100 COMPANIES AND THEIR SUBSIDIARY CORPORATIONS LISTED ACCORDING TO NET VALUE OF MILITARY PRIME CONTRACT AWARDS, FISCAL YEAR 1963 (JULY 1962 TO JUNE 1963)

The 100 companies which received the largest dollar volume of military prime contracts of \$10,000 or more in fiscal year 1963 accounted for 73.9 percent of the U.S. total. This is an increase of 1.6 percentage points from the 72.3 percent during fiscal year 1962, but a decrease of 0.3 of 1 percentage point from the 74.2 percent received in fiscal year 1961. As has been noted in previous reports, 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.

It may be seen from the table on page 11 that the increase occurred in the first 50 companies which received 2.2 percent more of the total in fiscal year 1963 than in the previous year, whereas companies in the 51st to 100th positions obtained 0.6 percent less of the 1963 total. The 1963 percentage for the first 25 companies is lower than any year shown except fiscal year 1962, and for the 100 companies it is about the same as the average during the years prior to fiscal year 1962.

Rico, and other areas subject to the complete sovereignty of the United States, but does not include occupied Japanese islands or trust territories.

² 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 subject to the complete sovereignty of 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.

⁵ Less than 0.05 percent.

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 contracts with manufacturers, the data reflect the location of the plant where the product will be finally processed and assembled. If processing or assembly is to be performed in more than one plant of a prime contractor the location shown is the plant where the largest dollar amount of work will take place. Construction contracts are shown for the State where the construction is to be performed. For purchases from wholesale or other distribution firms, the location is the address of the contractor's place of business. For service contracts, the location is generally the place where the service is performed, but for transportation and communications services the home office address is frequently used.

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

The estimated amounts of indefinite delivery, open-end or call-type contracts for petroleum are included in the report. Except for petroleum contracts, the report does not include indefinite delivery, open-end, or call-type contracts as such, but does include specific purchase or delivery orders of \$10,000 or more which are placed against these contracts. Also excluded from the report are project orders, that is, production orders issued to Government-owned-and-operated facilities such as Navy shipyards. However, the report includes the contracts placed with industry by the Government-operated facility to complete the production order.

Percent of U.S. total

Companies	Fiscal year 1958	Fiscal year 1959	Fiscal year 1960	Fiscal year 1961	Fiscal year 1962	Fiscal year 1963
1st.....	9.8	7.2	6.0	6.5	5.6	5.9
2d.....	6.4	5.2	5.1	5.2	4.7	5.2
3d.....	3.6	4.5	4.8	5.2	4.4	4.1
4th.....	3.5	4.1	4.6	4.1	4.0	4.0
5th.....	3.0	4.0	4.3	3.8	3.8	4.0
1st to 5th.....	26.3	25.0	24.8	24.8	22.5	23.2
6th to 10th.....	12.4	12.0	11.3	11.8	11.1	10.9
11th to 25th.....	19.1	17.6	17.4	18.2	17.2	17.8
1st to 25th.....	57.8	54.6	53.5	54.8	50.8	51.9
26th to 50th.....	9.1	10.7	11.3	11.0	12.6	13.7
51st to 75th.....	4.8	5.5	5.4	5.5	6.0	5.5
76th to 100th.....	2.5	3.0	3.2	2.9	2.9	2.8
1st to 100th.....	74.2	73.8	73.4	74.2	72.3	73.9

The list for fiscal year 1963 contains 17 companies which did not appear on the fiscal year 1962 list. Most of the new names appear toward the end of the list, but 2 companies attained a rank within the first 50. These are Merritt-Chapman & Scott Corp., with contracts totaling \$169.9 million in 34th position, and Studebaker Corp., with contracts totaling \$83.3 million in 47th position.

Over half of the companies were engaged in missile-space, aircraft, and electronics work. The contract work of many of the companies involved more than one major commodity category. Based on the category representing the largest dollar volume of contracts awarded to each company, there were 23 missile-space, 17 aircraft, and 13 electronics firms. The remaining 47 companies fell into the following categories: petroleum, 11; services, 9; tank-automotive, 8; ammunition, 8; ships, 7; construction, 2; and construction equipment, 2.

The same five educational and nonprofit institutions on the fiscal year 1962 list of large prime contractors are included on the fiscal year 1963 list. The group is comprised of the following: Massachusetts Institute of Technology, Johns Hopkins University, Aerospace Corp., System Development Corp., and Mitre Corp. These nonprofit contractors are generally providing research, development, and training services in the missile-space and electronics programs.

Five companies received prime contract awards of more than \$1 billion each in fiscal year 1963. These companies and a brief description of their more important contract work are as follows:

The Lockheed Aircraft Corp. led the list for the second consecutive year, receiving \$1,517 million, or 5.9 percent of the total. The aircraft contracts included the C-141A Starlifter jet cargo transport, C-130E Hercules turboprop jet transport, F-104 Starfighter jet fighter, P-2 Neptune piston engine patrol bomber, and the P-3A 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. The company and its subsidiaries also received contracts for shipbuilding and electronics.

Boeing Co. was in second place (5.2 percent), up from third place in fiscal year 1962. Its contract work was almost entirely in aircraft and missiles. Missile projects included the MINUTEMAN ICBM missile and DYNA-SOAR spacecraft. Aircraft projects included C and KC-135 troop and cargo transports, CH-47A Chinook troop transport, HRB-1 Sea Knight assault transport helicopters, and modification of B-52G and H Strato Fortress bombers.

North American Aviation, Inc. (4.1 percent) was third in fiscal year 1963 compared to fourth place in fiscal year 1962. Its prime contract work also is predominantly for aircraft and missiles including the A-5 attack weapon system, B-70 Valkyrie long-range strategic weapon system, and a wide variety of electronic equipment including guidance and control for the MINUTEMAN missile and for navigational systems for ships.

General Dynamics Corp., whose contracts totaled \$1,033.2 million (4 percent), dropped from second place in fiscal year 1962 to fourth place in fiscal year 1963. The prime contract work of the company was largely for missiles. It is also an important contractor for ships and aircraft, the contract value being about equal for each. In fiscal year 1963, the Electric Boat Division produced nuclear submarines; Pomona division worked on development of MAULER and REDEYE missiles and production of TARTAR and TERRIER missiles; Rochester division produced communications equipment; Astronautics division worked on large contracts for the ATLAS missile and boosters for the space program; and the Fort Worth division worked on development of F-111 fighters and continued to furnish repair parts and components for B-58 bombers.

General Electric Co., with \$1,021.2 million (4 percent) was in fifth place, the same position as a year ago. Its largest contracts were for jet aircraft engines. Guidance and control systems for missiles were next in importance. The company also produced a variety of electronics items and, in addition, had large contracts from the Navy for development and production of nuclear propulsion machinery for ships.

INDEX OF 100 PARENT COMPANIES WHICH WITH THEIR SUBSIDIARIES RECEIVED THE
LARGEST DOLLAR VOLUME OF MILITARY PRIME CONTRACT AWARDS IN FISCAL YEAR 1963

Rank	Parent Company	Rank	Parent Company
49.	Aerospace Corp.	59.	Lear-Siegler, Inc.
95.	Air Products & Chemicals, Inc.	26.	Ling-Temco-Vought, Inc.
86.	Allis-Chalmers Mfg. Co.	29.	Litton Industries, Inc.
81.	American Bosch Arma Corp.	1.	Lockheed Aircraft Corp.
61.	American Machine & Foundry Co.	93.	Loral Electronics Corp.
7.	American Telephone & Telegraph Co.	60.	Magnavox Co.
85.	Asiatic Petroleum Corp.	6.	Martin Marietta Corp.
96.	Atkinson (Guy F.) Co.	51.	Massachusetts Institute of Technology
21.	Avco Corp.	9.	McDonnell Aircraft Corp.
80.	Bath Iron Works Corp.	34.	Merritt-Chapman & Scott Corp.
19.	Bendix Corp.	33.	Minneapolis-Honeywell Regulator Co.
52.	Bethlehem Steel Corp.	84.	Mitre Corp.
2.	Boeing Co.	46.	Morrison-Knudsen & Associates
48.	Burrroughs Corp.	25.	Newport News Shipbuilding & Dry Dock Co.
97.	Carrier Corp.	3.	North American Aviation, Inc.
31.	Chrysler Corp.	24.	Northrop Corp.
98.	Clark Equipment Co.	56.	Olin Mathieson Chemical Corp.
39.	Collins Radio Co.	37.	Pan American World Airways, Inc.
45.	Continental Motors Corp.	100.	Phillips Petroleum Co.
72.	Continental Oil Co.	15.	Radio Corp. of America
88.	Control Data Corp.	18.	Raytheon Co.
44.	Curtiss-Wright Corp.	30.	Republic Aviation Corp.
83.	Day & Zimmerman, Inc.	75.	Richfield Oil Corp.
91.	DeFoe Shipbuilding Co.	69.	Ryan Aeronautical Co.
14.	Douglas Aircraft Co.	54.	Shell Caribbean Petroleum Co.
66.	du Pont (E. I.) de Nemours & Co.	76.	Sinclair Oil Corp.
90.	Dynallectron Corp.	58.	Socony Mobil Oil Co.
79.	Eastman Kodak Co.	10.	Sperry Rand Corp.
28.	F M C Corp.	42.	Standard Oil Co. (California)
92.	Flying Tiger Line, Inc.	67.	Standard Oil Co. (Indiana)
23.	Ford Motor Co.	36.	Standard Oil Co. (New Jersey)
63.	Garrett Corp.	47.	Studebaker Corp.
4.	General Dynamics Corp.	87.	Sundstrand Corp.
5.	General Electric Co.	73.	Sverdrup & Parcel, Inc.
11.	General Motors Corp.	71.	System Development Corp.
40.	General Precision Equipment Corp.	41.	Texaco, Inc.
35.	General Telephone & Electronics Corp.	94.	Texas Instruments, Inc.
12.	General Tire & Rubber Co.	38.	Textron, Inc.
78.	Gilfillan Corp.	22.	Thiokol Chemical Corp.
50.	Goodyear Tire & Rubber Co.	43.	Thompson Ramo Wooldridge, Inc.
13.	Grumman Aircraft Engineering Corp.	82.	Union Carbide Corp.
53.	Hayes International Corp.	8.	United Aircraft Corp.
89.	Hazeltine Corp.	99.	U.S. Lines Co.
32.	Hercules Powder Co.	62.	Universal American Corp.
17.	Hughes Aircraft Co.	77.	Vitro Corp. of America
27.	International Business Machines Corp.	74.	Western Union Telegraph Co.
55.	International Harvester Co.	16.	Westinghouse Electric Corp.
20.	International Telephone & Telegraph Corp.	70.	White Motor Co.
57.	Johns Hopkins University		
65.	Kaiser Industries Corp.		
68.	Kaman Aircraft Corp.		
64.	Kievit (Peter) Sons' Co.		

ECONOMIC ASPECTS OF MILITARY SUPPLY

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

Fiscal Year 1963
(1 July 1962 - 30 June 1963)

Rank	Companies	Millions of Dollars	Percent of U.S. Total	Cumulative Percent of U. S. Total
	U. S. TOTAL a/	<u>\$25,834.0</u>	<u>100.0%</u>	<u>100.0%</u>
	TOTAL, 100 COMPANIES AND THEIR SUBSIDIARIES b/	<u>19,092.6</u>	<u>73.9</u>	<u>73.9</u>
1.	LOCKHEED AIRCRAFT CORP.	1,424.7	5.5	
	Lockheed Air Terminal, Inc.	1.3	d/	
	Lockheed Aircraft International, Inc.	0.1	d/	
	Puget Sound Bridge & Dry Dock Co.	<u>90.9</u>	<u>0.4</u>	
	Total	1,517.0	5.9	5.9
2.	BOEING CO.	1,356.3	5.2	11.1
3.	NORTH AMERICAN AVIATION, INC.	1,062.4	4.1	15.2
4.	GENERAL DYNAMICS CORP.	1,033.2	4.0	19.2
5.	GENERAL ELECTRIC CO.	1,021.2	4.0	23.2
6.	MARTIN MARIETTA CORP.	766.8	3.0	26.2
7.	AMERICAN TELEPHONE & TELEGRAPH CO.	163.8	0.6	
	Chesapeake & Potomac Tel. Co.	1.7	d/	
	Mountain States Tel. & Tel. Co.	0.7	d/	
	New England Tel. & Tel. Co.	0.4	d/	
	New Jersey Bell Tel. Co.	0.2	d/	
	New York Telephone Co.	e/	d/	
	Northwestern Bell Tel. Co.	0.1	d/	
	Pacific Tel. & Tel. Co.	0.6	d/	
	Southern Bell Tel. & Tel. Co.	1.3	d/	
	Southwestern Bell Tel. Co.	0.7	d/	
	Teletype Corp.	5.4	d/	
	Western Electric Co.	<u>403.7</u>	<u>1.6</u>	
	Total	578.6	2.2	28.4
8.	UNITED AIRCRAFT CORP.	529.9	2.1	30.5
9.	McDONNELL AIRCRAFT CORP.	497.0	1.9	32.4
10.	SPERRY RAND CORP.	445.5	1.7	34.1
11.	GENERAL MOTORS CORP.	444.0	1.7	35.8
12.	GENERAL TIRE & RUBBER CO.	5.5	d/	
	Aerojet Delft Corp.	0.3	d/	
	Aerojet-General Corp.	409.8	1.6	
	Space Electronics Corp.	1.9	d/	
	Space General Corp.	<u>7.1</u>	<u>d/</u>	
	Total	424.6	1.6	37.4

Rank	Companies	Millions of Dollars	Percent of U.S. Total	Cumulative Percent of U. S. Total
13.	GRUMMAN AIRCRAFT ENGINEERING CORP.	\$ 390.5	1.5	38.9
14.	DOUGLAS AIRCRAFT CO.	360.7	1.4	
	Astropower, Inc.	0.4	$\frac{d}{c}$	
	Total	361.1	1.4	40.3
15.	RADIO CORP. OF AMERICA	328.6	1.3	
	RCA Institutes, Inc.	$\frac{c}{c}$	$\frac{d}{d}$	
	Total	328.6	1.3	41.6
16.	WESTINGHOUSE ELECTRIC CORP.	322.6	1.3	42.9
17.	HUGHES AIRCRAFT CO.	312.9	1.2	44.1
18.	RAYTHEON CO.	290.6	1.1	
	Autometric Corp.	0.6	$\frac{d}{d}$	
	Machlett Laboratories, Inc.	3.7	$\frac{d}{d}$	
	Trans-Sil Corp.	$\frac{c}{c}$	$\frac{d}{d}$	
	Total	294.9	1.1	45.2
19.	BENDIX CORP.	285.1	1.1	
	Bendix Field Engineering Corp.	4.9	$\frac{d}{d}$	
	Bendix-Westinghouse Automotive Air Brake Co.	0.2	$\frac{d}{d}$	
	Microwave Devices, Inc.	$\frac{c}{c}$	$\frac{d}{d}$	
	Sheffield Corp.	0.1	$\frac{d}{d}$	
	Total	290.3	1.1	46.3
20.	INTERNATIONAL TELEPHONE & TELEGRAPH CORP.	145.9	0.6	
	American Cable & Radio Corp.	2.0	$\frac{d}{d}$	
	Federal Electric Corp.	80.5	0.3	
	General Controls Co.	0.6	$\frac{d}{d}$	
	International Electric Corp.	33.4	0.1	
	ITT Communication Systems, Inc.	0.3	$\frac{d}{d}$	
	ITT Export Corp.	1.5	$\frac{d}{d}$	
	ITT Semi-Conductors, Inc.	$\frac{c}{c}$	$\frac{d}{d}$	
	Jennings Radio Mfg. Corp.	0.3	$\frac{d}{d}$	
	Kuthe Laboratories, Inc.	0.5	$\frac{d}{d}$	
	Royal Electric Corp.	0.3	$\frac{d}{d}$	
	Surprenant Mfg. Co.	0.2	$\frac{d}{d}$	
	Total	265.5	1.0	47.3
21.	AVCO CORP.	253.1	1.0	48.3
22.	THIokol CHEMICAL CORP.	238.5	0.9	
	Shawnee Industries, Inc.	0.1	$\frac{d}{d}$	
	Total	238.6	0.9	49.2
23.	FORD MOTOR CO.	74.6	0.3	
	Philco Corp.	153.1	0.6	
	Total	227.7	0.9	50.1

Rank	Companies	Millions of Dollars	Percent of U.S. Total	Cumulative Percent of U. S. Total
24.	NORHEROP CORP.	\$ 194.1	0.8	
	Page Communications Engineers, Inc.	<u>28.8</u>	<u>0.1</u>	
	Total	222.9	0.9	51.0
25.	NEWPORT NEWS SHIPBUILDING & DRY DOCK CO.	221.0	0.9	51.9
26.	LING-TEMCO-VOUGHT, INC.	183.0	0.8	
	Altec Companies, Inc.	0.1	d/	
	Altec Lansing Corp.	0.3	d/	
	Continental Electronics Mfg. Co.	5.9	d/	
	Continental Electronics Systems, Inc.	0.1	d/	
	F F & M Electronics, Inc.	0.7	d/	
	Kentron Hawaii, Ltd.	4.7	d/	
	Temco Electronics & Missiles Co.	10.0	d/	
	Temco Electronics Display Systems	0.4	d/	
	University Loudspeakers, Inc.	0.7	d/	
Total	<u>205.9</u>	0.8	52.7	
27.	INTERNATIONAL BUSINESS MACHINES CORP.	203.0	0.8	
	Service Bureau Corp.	<u>0.3</u>	<u>d/</u>	
	Total	203.3	0.8	53.5
28.	F M C CORP.	199.1	0.8	54.3
29.	LITTON INDUSTRIES, INC.	6.6	d/	
	Aero Service Corp.	4.4	d/	
	Airtron, Inc.	0.9	d/	
	Emertron, Inc.	1.7	d/	
	Ingalls Shipbuilding Corp.	148.5	0.7	
	Litton Electron Tube Corp.	2.6	d/	
	Litton Precision Products, Inc.	0.3	d/	
	Litton Systems, Inc.	31.2	0.1	
	McKiernan-Terry Corp.	0.9	d/	
	Monroe Calculating Machine Co., Inc.	0.2	d/	
	Poly-Scientific Corp.	c/	d/	
	Western Geophysical Co. of America	c/	d/	
	Westrex Corp.	<u>0.5</u>	<u>d/</u>	
Total	197.8	0.8	55.1	
30.	REPUBLIC AVIATION CORP.	196.8	0.7	55.8
31.	CHRYSLER CORP.	186.2	0.7	56.5
32.	HERCULES POWDER CO.	182.7	0.7	57.2
33.	MINNEAPOLIS-HONEYWELL REGULATOR CO.	170.0	0.7	57.9
34.	MERRITT-CHAPMAN & SCOTT CORP.	4.3	d/	
	Devoe & Reynolds Co., Inc.	0.4	d/	
	Higgins, Inc.	1.9	d/	
	New York Shipbuilding Corp.	<u>163.3</u>	<u>0.6</u>	
	Total	169.9	0.6	58.5

Rank	Companies	Millions of Dollars	Percent of U.S. Total	Cumulative Percent of U. S. Total
35.	GENERAL TELEPHONE & ELECTRONICS CORP.	\$ 0.1	d/	
	Automatic Electric Sales Corp.	2.0	d/	
	General Telephone & Electronics Laboratories, Inc.	1.0	d/	
	Lenkurt Electric Co., Inc.	7.4	d/	
	Sylvania Electric Products, Inc.	<u>152.1</u>	0.6	
	Total	162.6	0.6	59.1
36.	STANDARD OIL CO. (NEW JERSEY)	0.0	0.0	
	Esso International, Inc.	77.4	0.3	
	Esso Research & Engineering Co.	2.7	d/	
	Esso Standard Eastern, Inc.	5.3	d/	
	Gilbert & Barker Mfg. Co.	c/	d/	
	Humble Oil & Refining Co.	<u>70.1</u>	0.3	
	Total	155.5	0.6	59.7
37.	PAN AMERICAN WORLD AIRWAYS, INC.	154.5	0.6	60.3
38.	TEXTRON, INC.	2.6	d/	
	Accessory Products Corp.	0.2	d/	
	Bell Aerospace Corp.	144.5	0.6	
	Dalmo Victor Co.	0.1	d/	
	Nuclear Metals, Inc.	0.6	d/	
	Pittsburg Steel Foundry Corp.	0.1	d/	
	Randall Co.	0.1	d/	
	Textron Electronics, Inc.	1.8	d/	
	Textron Oregon, Inc.	1.0	d/	
	Townsend Co.	<u>0.2</u>	d/	
	Total	151.2	0.6	60.9
39.	COLLINS RADIO CO.	144.3	0.6	61.5
40.	GENERAL PRECISION EQUIPMENT CORP.	0.3	d/	
	G P E Controls, Inc.	c/	d/	
	General Precision, Inc.	128.4	0.5	
	Graflex, Inc.	0.7	d/	
	National Theatre Supply Co.	0.1	d/	
	Strong Electric Corp.	<u>1.9</u>	d/	
	Total	131.4	0.5	62.0
41.	TEXACO, INC.	41.4	0.2	
	Caltex Oil Products Co. e/	39.0	0.2	
	Caltex Philippines, Inc. e/	0.2	d/	
	Jefferson Chemical Co.	0.2	d/	
	Paragon Oil Co.	1.8	d/	
	Texaco Experiment, Inc.	1.1	d/	
	Texaco Export, Inc.	34.1	0.1	
	Texaco Puerto Rico, Inc.	1.0	d/	
	Texaco Trinidad, Inc.	0.1	d/	
	White Fuel Co., Inc.	<u>1.6</u>	d/	
	Total	120.5	0.5	62.5

Rank	Companies	Millions of Dollars	Percent of U.S. Total	Cumulative Percent of U. S. Total
42.	STANDARD OIL COMPANY (CALIFORNIA)	\$ 63.6	0.2	
	American Bitumuls & Asphalt Co.	0.1	d/	
	California Chemical Co.	c/	d/	
	California Oil Co.	12.0	d/	
	California Research Corp.	0.1	d/	
	Caltex Oil Products Co. e/	39.0	0.2	
	Caltex Philippines, Inc. e/	0.2	d/	
	Pacific Oil Co.	c/	d/	
	Standard Oil Co. of Kentucky	1.2	d/	
	Standard Oil Co. of Texas	0.4	d/	
	Total	<u>116.6</u>	0.4	62.9
43.	THOMPSON-RAMO-WOOLDRIDGE, INC.	42.4	0.2	
	Federal Industries, Inc.	c/	d/	
	Good-All Electric Mfg. Co.	0.1	d/	
	Magna Corp.	0.1	d/	
	Milam Electric Mfg. Co.	c/	d/	
	Pacific Semiconductors	0.9	d/	
	Radio Condenser Co.	0.1	d/	
	Radio Industries, Inc.	0.3	d/	
	Space Technology Laboratories, Inc.	62.5	0.2	
	Total	<u>106.4</u>	0.4	63.3
44.	CURTISS-WRIGHT CORP.	98.3	0.4	
	Abrams Instrument Corp.	c/	d/	
	Redel, Inc.	0.7	d/	
	Target Rock Corp.	c/	d/	
	Total	<u>98.4</u>	0.4	63.7
45.	CONTINENTAL MOTORS CORP.	85.9	0.4	
	Continental Aviation & Engineering Corp.	11.1	d/	
	Gray Marine Motor Co.	0.1	d/	
	Wisconsin Motors Corp.	0.1	d/	
	Total	<u>97.2</u>	0.4	64.1
46.	MORRISON-KNUDSEN & ASSOCIATES f/	84.4	0.3	64.4
47.	STUDEBAKER CORP.	70.4	0.3	
	Franklin Mfg. Co.	c/	d/	
	Onan (D. W.) Sons, Inc.	2.0	d/	
	Paxton Products Corp.	c/	d/	
	Trans International Airlines, Inc.	10.9	d/	
	Total	<u>83.3</u>	0.3	64.7
48.	BURROUGHS CORP.	76.8	0.3	
	Burroughs Control Corp.	0.7	d/	
	Total	<u>77.5</u>	0.3	65.0
49.	AEROSPACE CORP.	75.5	0.3	65.3
50.	GOODYEAR TIRE & RUBBER CO.	22.5	0.1	
	Goodyear Aircraft Corp.	50.2	0.2	
	Total	<u>72.7</u>	0.3	65.6
51.	MASSACHUSETTS INSTITUTE OF TECHNOLOGY	70.8	0.3	65.9

Rank	Companies	Millions of Dollars	Percent of U.S. Total	Cumulative Percent of U. S. Total
52.	BETHLEHEM STEEL CORP. Bethlehem Steel Co. Bethlehem Steel Export Corp. Total	\$ 0.0 68.2 0.2 68.4	0.0 0.3 d/ 0.3	66.2
53.	HAYES INTERNATIONAL CORP.	67.1	0.3	66.5
54.	SHELL CARIBBEAN PETROLEUM CO. International Lubricant Corp. Shell Oil Co. Total	37.8 1.9 26.8 66.5	0.2 d/ 0.1 0.3	66.8
55.	INTERNATIONAL HARVESTOR CO. Hough (Frank G.) Co. Macleod & Co. Solar Aircraft Co. Total	47.5 8.7 1.1 9.0 66.3	0.3 d/ d/ d/ 0.3	67.1
56.	OLIN MATHIESON CHEMICAL CORP.	65.8	0.2	67.3
57.	JOHNS HOPKINS UNIVERSITY	65.5	0.2	67.5
58.	SOCONY MOBIL OIL CO. Mobil Petroleum Co., Inc. Total	64.2 c/ 64.2	0.2 d/ 0.2	67.7
59.	LEAR-SIEGLER, INC. Hallamore Electronics Co. Magnetic Amplifiers, Inc. Olympic Radio & Television, Inc. Rett Electronics, Inc. Total	58.0 c/ c/ c/ 3.0 61.0	0.2 d/ d/ d/ d/ 0.2	67.9
60.	MAGNAVOX CO.	57.7	0.2	68.1
61.	AMERICAN MACHINE & FOUNDRY CO. A M F International Co. Beird, Inc. Cuno Engineering Corp. Total	57.0 c/ c/ 0.1 57.1	0.2 d/ d/ d/ 0.2	68.3
62.	UNIVERSAL AMERICAN CORP. American Cement Corp. Amron Corp. Bohn Aluminum & Brass Corp. Hardeman (Paul), Inc. Total	0.2 c/ 23.8 c/ 32.3 56.3	d/ d/ 0.1 d/ 0.1 0.2	68.5
63.	GARRETT CORP.	55.7	0.2	68.7
64.	KIEWIT (PETER) SONS' CO.	54.1	0.2	68.9
65.	KAISER INDUSTRIES' CORP. Kaiser (Henry J.) Co. Kaiser Fleetwings, Inc. Kaiser Jeep Corp. Kaiser Steel Corp. National Steel & Shipbuilding Co. Total	0.0 0.5 c/ 43.6 2.8 2.3 49.2	0.0 d/ d/ 0.2 d/ d/ 0.2	69.1

ECONOMIC ASPECTS OF MILITARY SUPPLY

Rank	Companies	Millions of Dollars	Percent of U.S. Total	Cumulative Percent of U. S. Total
66.	DU PONT (E. I.) DE NEMOURS & CO. Remington Arms Co., Inc. Total	\$ 10.4 <u>37.5</u> 47.9	$\frac{d}{0.2}$ $\frac{d}{0.2}$ $\frac{d}{0.2}$	69.3
67.	STANDARD OIL CO. (INDIANA) American Oil Co. Amoco Chemicals Corp. Total	0.1 40.5 <u>5.0</u> 45.6	$\frac{d}{0.2}$ $\frac{d}{0.2}$ $\frac{d}{0.2}$ $\frac{d}{0.2}$	69.5
68.	KAMAN AIRCRAFT CORP.	44.9	0.2	69.7
69.	RYAN AERONAUTICAL CO.	44.2	0.2	69.9
70.	WHITE MOTOR CO. Diamond T. Motor Truck Co. Oliver Corp. Total	44.0 $\frac{c}{c}$ <u>44.0</u>	0.2 $\frac{d}{d}$ $\frac{d}{0.2}$	70.1
71.	SYSTEM DEVELOPMENT CORP.	43.9	0.2	70.3
72.	CONTINENTAL OIL CO. Douglas Oil Co. of Calif. Malco Products, Inc. Malco Refineries, Inc. Western Oil & Fuel Co. Total	34.4 1.0 4.5 1.6 <u>1.6</u> 43.1	0.2 $\frac{d}{d}$ $\frac{d}{d}$ $\frac{d}{d}$ $\frac{d}{d}$ $\frac{d}{0.2}$	70.5
73.	SVERDRUP & PARCEL, INC. A R O, Inc. Total	3.8 <u>38.5</u> 42.3	$\frac{d}{0.2}$ $\frac{d}{0.2}$ $\frac{d}{0.2}$	70.7
74.	WESTERN UNION TELEGRAPH CO.	41.5	0.2	70.9
75.	RICHFIELD OIL CORP. American Mineral Spirits Co., Western Total	39.7 <u>0.1</u> 39.8	$\frac{0.2}{d}$ $\frac{d}{d}$ $\frac{d}{0.2}$	71.1
76.	SINCLAIR OIL CORP. Sinclair Refining Co. Sinclair Research, Inc. Total	0.0 38.3 <u>0.1</u> 38.4	0.0 0.2 $\frac{d}{d}$ $\frac{d}{0.2}$	71.3
77.	VITRO CORP. OF AMERICA	37.0	0.2	71.5
78.	GILFILLAN CORP.	37.0	0.2	71.7
79.	EASTMAN KODAK CO. Eastman Chemical Products, Inc. Eastman Kodak Stores, Inc. Recordak Corp. Total	35.9 0.1 0.2 <u>0.6</u> 36.8	0.1 $\frac{d}{d}$ $\frac{d}{d}$ $\frac{d}{d}$ $\frac{d}{0.1}$	71.8
80.	BATH IRON WORKS CORP. Hyde Windlass Co. Total	34.3 <u>0.3</u> 34.6	0.1 $\frac{d}{d}$ $\frac{d}{0.1}$	71.9

Rank..	Companies	Millions of Dollars	Percent of U.S. Total	Cumulative Percent of U. S. Total
81.	AMERICAN BOSCH ARMA CORP.	\$ 33.8	0.1	72.0
82.	UNION CARBIDE CORP.	33.6	0.1	72.1
83.	DAY & ZIMMERMAN, INC.	33.3	0.1	72.2
84.	MITRE CORP.	33.1	0.1	72.3
85.	ASIATIC PETROLEUM CORP.	33.0	0.1	72.4
86.	ALLIS-CHALMERS MFG. CO. Consolidated Systems Corp. Total	29.6 <u>1.6</u> 31.2	0.1 <u>a/</u> 0.1	72.5
87.	SUNDSTRAND CORP. Sundstrand Aircraft Service Corp. Total	30.9 <u>0.3</u> 31.2	0.1 <u>a/</u> 0.1	72.6
88.	CONTROL DATA CORP.	30.1	0.1	72.7
89.	HAZELTINE CORP. Hazeltine Research Corp. Wheeler Laboratories, Inc. Total	29.5 0.1 <u>c/</u> 29.6	0.1 <u>a/</u> <u>a/</u> 0.1	72.8
90.	DYNALECTRON CORP.	29.6	0.1	72.9
91.	DEFOE SHIPBUILDING CO.	29.3	0.1	73.0
92.	FLYING TIGER LINE, INC.	29.0	0.1	73.1
93.	LORAL ELECTRONICS CORP.	28.6	0.1	73.2
94.	TEXAS INSTRUMENTS, INC. Engineering Supply Co. Metals & Controls, Inc. Total	28.4 <u>c/</u> <u>0.2</u> 28.6	0.1 <u>a/</u> <u>a/</u> 0.1	73.3
95.	AIR PRODUCTS & CHEMICALS, INC.	27.7	0.1	73.4
96.	ATKINSON (GUY F.) CO. Willamette Iron & Steel Co. Total	<u>c/</u> <u>27.3</u> 27.3	<u>a/</u> <u>0.1</u> 0.1	73.5
97.	CARRIER CORP. Spectrol Electronics Corp. Total	26.8 <u>0.1</u> 26.9	0.1 <u>a/</u> 0.1	73.6
98.	CLARK EQUIPMENT CO.	26.9	0.1	73.7
99.	U. S. LINES CO.	26.7	0.1	73.8
100.	PHILLIPS PETROLEUM CO.	26.5	0.1	73.9

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 1963. 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 Standard Oil Co. of California and Texaco, Inc.; half of the total of military awards is shown under each of the parent companies.

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

NEGOTIATED AND ADVERTISED PROCUREMENT ACTIONS

Negotiated procurements for fiscal year 1963, were 87 percent of total awards with business firms in the United States and up slightly from the previous year. Significantly, the DOD states that when items can be procured competitively the savings are about 25 percent. 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, 1951-63*

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
1963.....	27,143	3,538	13.0	23,605	87.0
Total, 1951-63.....	305,543	40,501	13.3	265,042	86.7

Source: "Military Prime Contract Awards and Subcontract Payments, July 1962-June 1963," Office of the Secretary of Defense.

CONTRACT AWARDS BY STATUTORY AUTHORITY (TABLE 9)

Three types of negotiation authority account for almost two-thirds of all negotiations. The results for fiscal years 1962 and 1963 follow:

	Percent	
	1962	1963
Impracticable to secure competition by formal advertising.....	13.9	15.5
Experimental, developmental, test, or research.....	20.5	19.2
Technical or specialized supplies requiring substantial initial investment or extended period of preparation for manufacture.....	29.2	27.8
Total.....	63.6	62.5

TABLE 9.—Awards by statutory authority (July-June)¹

(Dollars in thousands)

Statutory Authority (10 U.S.C. 2304(a))	July 1961-June 1962					
	Total		Army	Navy	Air Force	Defense Supply Agency ²
	Amount	Percent	Amount	Amount	Amount	Amount
Total.....	\$29,254,502	-----	\$7,555,735	\$8,766,618	\$11,769,112	\$1,163,037
Intragovernmental.....	1,155,481	-----	406,910	216,043	471,165	61,363
Total, except intragovernmental.....	28,099,021	100.0	7,148,825	8,550,575	11,297,947	1,101,674
Formally advertised.....	3,544,619	12.6	1,304,007	1,321,076	474,501	445,035
Other authority (subtotal).....	24,554,402	87.4	5,844,818	7,229,499	10,823,446	656,639
(1) National emergency (subtotal).....	\$ 279,104	1.0	144,181	78,947	26,619	29,357
(a) Labor surplus area and industry set-aside.....	142,495	.5	76,099	33,779	11,365	21,252
(b) Small business set-aside (unilateral).....	128,662	.5	63,715	41,699	15,989	7,259
(c) Modifications authorized by existing contract negotiated prior to January 1, 1956.....	5,285	(*)	2,953	3,429	-1,115	18
(d) Balance-of-payments program.....	2,662	(*)	1,414	40	380	828
(2) Public exigency.....	416,904	1.5	63,397	107,955	237,025	8,527
(3) Purchases not more than \$2,500.....	1,069,441	3.8	390,641	329,618	293,812	55,370
(4) Personal or professional services.....	125,781	.4	61,939	38,911	24,881	0
(5) Services of educational institutions.....	295,195	1.1	44,689	128,923	121,552	31
(6) Purchases outside United States.....	1,193,502	4.3	599,777	286,803	233,392	73,530
(7) Medicines or medical supplies.....	62,654	.2	1,131	14,384	933	46,401
(8) Supplies purchased for authorized resale.....	82,100	.3	31,978	6,399	25,286	18,437
(9) Perishable or nonperishable subsistence.....	485,235	1.7	248,772	4,449	5,181	226,833
(10) Impractical to secure competition by formal advertising.....	3,906,187	13.9	650,906	1,097,279	2,132,461	25,541
(11) Experimental, developmental, test, or research.....	\$ 5,763,983	20.5	750,497	738,606	4,274,796	84
(12) Classified purchases.....	771,714	2.7	272,607	496,707	2,400	0
(13) Technical equipment requiring standardization and interchangeability of parts.....	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.....	8,194,024	29.2	1,852,412	3,303,885	3,037,727	0
(15) Negotiation after advertising.....	2,295	(*)	22	68	2,205	0
(16) Purchases to keep facilities available in the interest of national defense or industrial mobilization.....	670,331	2.4	190,812	285,199	175,517	18,803
(17) Otherwise authorized by law.....	1,192,562	4.2	517,826	291,427	229,584	153,725

Statutory Authority (10 U.S.C. 2304(a))	July 1962-June 1963						
	Total		Army	Navy	Air Force	Defense Supply Agency	Other Defense Agencies
	Amount	Percent	Amount	Amount	Amount	Amount	Amount
Total	\$29,378,720		\$6,364,736	\$8,235,200	\$11,918,441	\$2,670,344	\$189,999
Intragovernmental.....	346,516		77,631	102,309	144,999	16,626	4,951
Total, except intragovernmental.....	29,032,204	100.0	6,287,105	8,132,891	11,773,442	2,653,718	185,048
Formally advertised.....	3,677,879	12.7	1,295,709	885,561	400,668	1,095,684	257
Other authority (subtotal).....	25,354,325	87.3	4,991,396	7,247,330	11,372,774	1,558,034	184,791
(1) National emergency (subtotal).....	301,547	1.0	124,487	55,498	49,275	72,287	0
(a) Labor surplus area and industry set-aside.....	185,988	0.6	67,248	35,150	24,609	58,981	0
(b) Small business set-aside (unilateral).....	101,128	0.4	50,455	20,549	21,335	8,789	0
(c) Modifications authorized by existing contract negotiated prior to January 1, 1956.....	4,738	(*)	2,092	-201	2,746	101	0
(d) Balance-of-payments program.....	9,693	(*)	4,692	0	585	4,416	0
(2) Public exigency.....	562,430	1.9	151,677	106,752	263,267	40,734	0
(3) Purchases not more than \$2,500.....	1,280,338	4.4	382,161	417,242	299,427	181,608	0
(4) Personal or professional services.....	93,062	0.3	40,176	29,400	22,145	0	1,341
(5) Services of educational institutions.....	445,775	1.5	57,623	155,555	215,530	246	16,821
(6) Purchases outside United States.....	962,448	3.3	428,309	102,968	181,896	249,275	0
(7) Medicines or medical supplies.....	44,639	0.2	1,009	361	2,209	41,060	0
(8) Supplies purchased for authorized resale.....	280,304	1.0	62,263	34,000	125,304	58,737	0
(9) Perishable or nonperishable subsistence.....	535,647	1.9	20,745	15,356	17,764	81,792	0
(10) Impractical to secure competition by formal advertising.....	4,487,119	15.5	791,384	1,084,307	2,374,547	96,980	139,901
(11) Experimental, developmental, test, or research.....	5,585,284	19.2	761,976	1,001,303	3,797,240	325	24,440
(12) Classified purchases.....	420,463	1.4	261,418	154,568	3,527	0	950
(13) Technical equipment requiring standardization and interchangeability of parts.....	27,622	0.1	14,429	10,696	33	2,464	0
(14) Technical or specialized supplies requiring substantial initial investment or extended period of preparation for manufacture.....	8,069,222	27.8	1,346,023	3,234,474	3,488,601	124	0
(15) Negotiation after advertising.....	1,102	(*)	6	668	359	69	0
(16) Purchases to keep facilities available in the interest of national defense or industrial mobilization.....	819,150	2.8	69,627	527,225	217,480	4,818	0
(17) Otherwise authorized by law.....	1,438,173	5.0	478,083	316,957	314,180	327,615	1,388

¹ For definitions and coverage, see Notes on Coverage, p. 26.

² Includes awards since Jan. 1, 1962, when procurement responsibility for certain common supplies was transferred from the military departments.

³ Revised to conform to Public Law 87-653 (Dec. 1, 1962) which provides that all

procurement relating to experimental, developmental, test or research work be included under Authority (11).

*Less than 0.05 percent.

NOTES ON COVERAGE AND GLOSSARY OF TERMS

Business firms.—Companies, individuals, and partnerships organized for profit.

Civil functions.—Nonmilitary activities such as those administered by the Army Corps of Engineers for rivers and harbors, and flood control work. Civil functions are excluded from this report.

Coverage compared with fiscal reports.—Amounts in this contract report are shown for the military department or defense agency that awards the prime contracts, and not the department or agency that budgets for the supplies or services. In addition, data for Army, Navy, and Air Force include prime contracts awarded on behalf of the National Aeronautics and Space Administration and other Federal agencies, as well as for foreign countries whose defense purchases are bought on a cash basis. Military assistance program (MAP) contracts for grant aid also are included in the awarding department's figures. Most of the OCD budget for supplies and services is awarded by DSA.

This contract report does not include obligations for in-house work performed at military-owned-and-operated establishments, such as Navy shipyards, Army arsenals, and Air Force research laboratories, except to the extent that such establishments place contracts for supplies and services with industry or other Federal agencies.

Obligations for subsistence, clothing, petroleum, and various maintenance and operating supplies are not included in the "Procurement," "Construction," and "Research, Development, Test, and Evaluation" categories of fiscal reports, nor are they shown separately in such reports.

Category definitions of the contract and fiscal reports are not comparable. For example, fiscal reports provide complete costs of end items, such as aircraft and missiles, whereas contract reports for these categories exclude separately procured electronics and weapons.

Defense agency.—The Defense Supply Agency (DSA), which was established on Jan. 1, 1962, to manage, procure, and distribute certain common supplies formerly the responsibility of the military departments; Office of the Secretary of Defense (OSD), most of whose contracts are made on behalf of the Advanced Research Projects Agency (ARPA); Office of Civil Defense (OCD); or Defense Communications Agency (DCA), which was established Jan. 1, 1963, and assumed responsibility for leasing of communications services formerly performed by the Department of the Air Force. Although OSD and OCD were operative prior to fiscal year 1963, available data begin with that year.

Educational and nonprofit institution.—One located in the United States. If not located in the United States, this type of institution is included in the category "For work outside United States."

Intragovernmental purchase.—An order written by a military department or defense agency purchasing office requesting a nondefense Federal agency to furnish supplies or services from its stocks, from its in-house manufacturing facilities or from contracts to be executed by the other Federal agency. Prior to fiscal year 1963, the term "intragovernmental" also includes orders written against indefinite quantity contracts executed by the General Services Administration (GSA schedules), or awarded by another purchasing office of the Department of Defense.

Location of work.—The place where the item is to be manufactured, assembled, or otherwise supplied by the prime contractor, the place where the service is to be performed, or the site of a construction project.

Military department.—The Department of the Army, Navy, or Air Force.

Net value.—The net amount of debit and credit procurement actions recorded during the period.

Prime contract award.—A legally binding instrument executed by a military department or an agency of the Department of Defense to obtain supplies, services, or construction. Indefinite quantity, open-end or call contracts do not legally bind the Department of Defense. However, orders against such contracts are binding obligations. Indefinite quantity petroleum contracts are excepted from this definition in that the estimated dollar amount of such contracts is included in this report, and the orders written against the contracts are excluded.

Procurement action.—An action which officially awards or changes a prime contract. This may be the award of a new prime contract, a debit or credit change of \$10,000 or more to an existing prime contract, or an order written against an indefinite quantity, open-end, or term prime contract. Changes may be amendments, job orders, task orders, work orders, supplemental agreements, engineering changes, cancellations, or terminations.

Small business firm.—Generally, a firm which is independently owned and operated, is not dominant in its field of operations, and with its affiliates does not employ more than 500 persons. Important exceptions to the 500-person rule were applicable in fiscal year 1963 to the following industries: air transportation, aircraft equipment and parts, rubber footwear, small arms, small arms ammunition, and tires and tubes—employment not to exceed 1,000 persons; petroleum refining—employment not to exceed 1,000 persons, and crude capacity not to exceed 30,000 barrels daily. In lieu of the 500-person rule, average annual receipts in the preceding 3 years were prescribed for the following industries: construction, \$7,500,000; dredging, \$5,000,000; custodial and janitorial, \$1,000,000; and trucking and warehousing, \$3,000,000 in previous year. The complete definition of small business, which is revised from time to time by the Small Business Administration, is contained in the Federal Register (title 13, ch. I, pt. 121).

Subcontract payment.—A cash payment made by one contractor to another for supplies, services, or construction required to fulfill a prime contract.

United States.—The 50 States, the District of Columbia, U.S. possessions, the Canal Zone, the Commonwealth of Puerto Rico, and other areas subject to the complete sovereignty of the United States, but not including occupied Japanese islands or trust territories.

NET VALUE OF MILITARY PRIME CONTRACT AWARDS FOR EXPERIMENTAL, DEVELOPMENTAL, TEST, AND RESEARCH WORK, BY STATES, AND REGIONS (TABLE 10)

There has been widespread interest in negotiated contracts for experimental, developmental, test and research work, constituting 19.2 percent of all negotiated contracts for fiscal year 1963. While these awards in themselves amounted to over \$6 billion in fiscal year 1963, 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 10):

Percent of total:	Number of States
40 to 45.....	1
10 to 15.....	0
5 to 10.....	4
4 to 5.....	2
3 to 4.....	1
2 to 3.....	4
1 to 2.....	4
0 to 1.....	35

TABLE 10.—Net value of military prime contract awards for experimental, developmental, test, and research work, fiscal year 1963¹

(Dollars in thousands)

	Total		Schools and their affiliates		Other nonprofit institutions ²		Business firms	
	Amount	Per cent	Amount	Per cent	Amount	Per cent	Amount	Per cent
Total distributed by State.....	\$6,198,903	100.0	\$381,864	100.0	\$172,217	100.0	\$5,644,822	100.0
New England.....	487,409	7.9	123,217	32.3	1,551	.9	362,641	6.4
Maine.....	207	(*)	0	.0	105	.1	102	(*)
New Hampshire.....	7,916	.1	685	.2	0	.0	7,231	.1
Vermont.....	4,698	.1	130	(*)	0	.0	4,568	.1
Massachusetts.....	364,996	5.9	117,772	30.8	554	.3	246,670	4.4
Rhode Island.....	5,124	.1	3,602	.9	16	(*)	2,506	(*)
Connecticut.....	103,468	1.7	1,028	.3	876	.5	101,564	1.8
Middle Atlantic.....	1,029,874	16.6	48,708	12.8	21,031	12.2	959,935	17.0
New York.....	286,953	6.2	32,941	8.6	11,069	6.4	342,943	6.1
New Jersey.....	387,530	6.3	3,944	1.0	390	.2	383,196	6.8
Pennsylvania.....	255,191	4.1	11,823	3.1	9,572	5.6	233,796	4.1
East North Central.....	314,794	5.1	51,343	13.4	6,106	3.5	257,345	4.6
Ohio.....	90,978	1.5	8,516	2.2	5,133	3.0	77,329	1.4
Indiana.....	28,732	.5	2,947	.8	0	.0	25,785	.5
Illinois.....	57,991	.9	26,387	6.9	662	.4	30,962	.5
Michigan.....	72,758	1.2	11,689	3.1	66	(*)	61,003	1.1
Wisconsin.....	64,335	1.0	1,824	.5	245	.1	62,266	1.1
West North Central.....	102,766	1.7	3,954	1.0	3,333	1.9	95,479	1.7
Minnesota.....	58,639	.9	1,878	.5	666	.4	56,095	1.0
Iowa.....	4,058	.1	739	.2	0	.0	3,319	.1
Missouri.....	16,346	.3	882	.2	2,618	1.5	12,846	.2
North Dakota.....	1,170	(*)	10	(*)	0	.0	1,160	(*)
South Dakota.....	10,686	.2	25	(*)	0	.0	10,661	.2
Nebraska.....	369	(*)	12	(*)	49	(*)	308	(*)
Kansas.....	11,498	.2	408	.1	0	.0	11,090	.2
South Atlantic.....	581,360	9.4	82,890	21.7	29,103	16.9	469,367	8.3
Delaware.....	26,186	.4	204	.1	0	.0	25,982	.4
Maryland.....	231,919	3.7	67,129	17.6	7,750	4.5	157,040	2.8
District of Columbia.....	36,212	.6	7,965	2.1	19,015	11.0	9,233	.2
Virginia.....	40,070	.6	1,246	.3	2,096	1.2	36,728	.6
West Virginia.....	31,587	.5	64	(*)	0	.0	31,523	.6
North Carolina.....	40,847	.7	2,481	.6	20	(*)	38,346	.7
South Carolina.....	341	(*)	192	.1	0	.0	149	(*)
Georgia.....	2,606	(*)	1,154	.3	187	.1	1,265	(*)
Florida.....	171,591	2.8	2,455	.6	35	(*)	169,101	3.0
South Central.....	208,588	3.4	9,202	2.4	7,589	4.4	191,797	3.4
Kentucky.....	998	(*)	376	.1	0	.0	622	(*)
Tennessee.....	45,396	.7	699	.2	3,507	2.0	41,190	.7
Alabama.....	12,470	.2	453	.1	503	.3	11,514	.2
Mississippi.....	475	(*)	450	.1	25	(*)	0	.0
Arkansas.....	689	(*)	23	(*)	0	.0	666	(*)
Louisiana.....	1,340	(*)	654	.2	0	.0	686	(*)
Oklahoma.....	5,958	.1	1,271	.3	72	(*)	4,615	.1
Texas.....	141,262	2.3	5,276	1.4	3,482	2.0	132,504	2.3

TABLE 10.—*Net value of military prime contract awards for experimental, developmental, test, and research work, fiscal year 1963*¹—Continued

[Dollars in thousands]

	Total		Schools and their affiliates		Other nonprofit institutions ²		Business firms	
	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent
Mountain.....	\$566,224	9.1	\$10,985	2.9	\$4,999	2.9	\$550,240	9.7
Montana.....	3,101	.1	78	(*)	0	.0	3,023	.1
Idaho.....	-49	(*)	51	(*)	-100	-1.1	0	.0
Wyoming.....	1,484	(*)	0	.0	0	.0	1,484	(*)
Colorado.....	254,346	4.1	3,452	.9	4,438	2.6	246,446	4.3
Utah.....	137,366	2.2	2,985	.8	0	.0	134,381	2.4
Nevada.....	1,429	(*)	0	.0	0	.0	1,429	(*)
New Mexico.....	17,425	.3	3,692	1.0	641	.4	13,091	.2
Arizona.....	151,123	2.4	717	.2	20	(*)	150,386	2.7
Pacific.....	2,905,908	46.8	49,955	13.1	98,260	57.1	2,757,693	48.9
Washington.....	337,174	5.4	4,786	1.3	104	.1	332,284	5.9
Oregon.....	1,718	(*)	749	.2	0	.0	969	(*)
California.....	2,567,016	41.4	44,420	11.6	98,156	57.0	2,424,440	42.9
Alaska and Hawaii.....	2,180	(*)	1,610	.4	245	.1	325	(*)
Alaska.....	1,559	(*)	1,255	.3	245	.1	59	(*)
Hawaii.....	621	(*)	355	.1	0	.0	266	(*)

¹ Contracts of \$10,000 or more each. Includes contracts of Advanced Research Project Agency and other agencies of the Office of the Secretary of Defense.

² Includes contracts with other Government agencies.

*Less than 0.05 percent.

NOTE.—Percentages may not add to totals because of rounding.

Source: OSD.

FIXED-PRICE VERSUS COST REIMBURSEMENT CONTRACTS

During the past fiscal year, the use of fixed-price contracts was increased by 4.1 percent.

TABLE 11.—*Net value of military procurement actions, by type of contract pricing provision,¹ fiscal years 1952-63*

[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	13,359	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
1963.....	26,225	17,013	64.9	9,212	35.1

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 ASPFA, 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 1962-June 1963," Office of the Secretary of Defense.

UTILIZATION OF MILITARY STOCKS

The development of uniform cataloging and more centralized management of common items of supply makes it possible to match requirements against existing inventories thus utilizing long stocks and obviating the need for additional procurements. From fiscal year 1958 through fiscal year 1963 the amount of utilization has steadily risen from \$213 to \$1,157 million. Since there are now stocks valued at \$12 billion in excess and long supply (app. 2, p. 46), still greater improvement is expected in this activity in the future.

TABLE 12

[In millions]

Utilization of DOD assets	Fiscal year 1958	Fiscal year 1959	Fiscal year 1960	Fiscal year 1961	Fiscal year 1962	Fiscal year 1963
DOD interservice supply support program (wholesale).....	\$32	\$119	\$141	\$228	\$353	\$420
Intraservice utilization of military service declared excess property.....	117	232	408	616	637	626
Interservice utilization of military service declared excess property.....	64	134	117	131	122	111
Total.....	213	485	666	975	1,112	1,157

Source: Office of Secretary of Defense.

DISPOSITION OF DOD SURPLUS STOCKS

The disposal of surplus DOD personal property has declined about one-third from fiscal year 1958 to fiscal year 1963 (table 13) while the percent of total gross proceeds to the total acquisition cost has declined from 3.3 percent to 2.87 percent and the percent of proceeds to acquisition cost (other than scrap and salvage) has increased about 1½ percent (table 14). Meanwhile the costs of disposal sales have more than trebled as a percent of gross proceeds from fiscal year 1958 to fiscal year 1963 (table 15).

TABLE 13.—Total dispositions (at acquisition cost) of surplus personal property, fiscal years 1958-63

[In millions]

	Fiscal year 1958	Fiscal year 1959	Fiscal year 1960	Fiscal year 1961	Fiscal year 1962	Fiscal year 1963
Utilized by other Government agencies and MAP.....	\$168	\$361	\$141	\$349	\$271	\$188
Abandoned or destroyed.....	62	99	118	44	50	74
Authorized donations.....	221	314	347	275	258	233
Sales (other than scrap) and salvage.....	2,465.8	2,759.2	2,356.4	1,771.3	1,236.2	891.6
Expended to scrap.....	2,993.7	4,576.8	3,626.7	4,331.8	2,233.1	2,537.8
Total dispositions.....	5,911	8,141	6,589	6,791	4,061	3,941

TABLE 14.—*Proceeds from disposal sales of surplus personal property by the military departments, fiscal years 1958-63*

[In millions]

Proceeds from disposal	Fiscal year 1958	Fiscal year 1959	Fiscal year 1960	Fiscal year 1961	Fiscal year 1962	Fiscal year 1963
From sale (other than scrap) and salvage	\$128	\$140	\$124	\$106	\$87	\$59
From sale of other property.....	55	72	70	61	48	40
Total.....	183	212	194	167	135	99
Acquisition cost (total).....	5,460	7,366	5,983	6,123	3,482	3,446
Percent of total gross proceeds to total acquisition cost.....	3.38	2.88	3.24	2.71	3.87	2.87
Percent of proceeds to acquisition cost (other than scrap) and salvage.....	5.18	5.2	5.25	5.98	7.02	6.66

TABLE 15.—*Costs of disposal sales of surplus property by the military departments fiscal years 1958-63*

[In millions]

Costs of disposal sales of surplus property	Fiscal year 1958	Fiscal year 1959	Fiscal year 1960	Fiscal year 1961	Fiscal year 1962	Fiscal year 1963
Cost for demilitarization.....	\$24.0	\$20.5	\$26.6	\$19.1	\$9.1	\$9.5
Costs for preparation and selling.....	18.5	37.8	51.8	65.5	69.0	62.6
Total.....	42.5	58.3	78.4	84.6	78.1	72.1
Gross proceeds.....	183.0	212.0	194.0	167.0	135.0	99.0
Percent of sales costs to gross proceeds....	23.0	27.5	40.4	50.6	58.0	75.2

APPENDIXES

APPENDIX I

THE DEFENSE SUPPLY AGENCY ¹

The Defense Supply Agency has been in operation for over 2 years. The performance has fully justified the establishment of the Agency. DSA has successfully absorbed the missions and organizations initially and subsequently assigned. Today, as a major segment of the Defense Logistic Establishment, the Agency is providing responsive and efficient service to its customers at less cost.

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 Defense Documentation 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.

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 1961.

¹ Report of Lt. Gen. A. T. McNamara, Director, Defense Supply Agency.

FIGURE 1

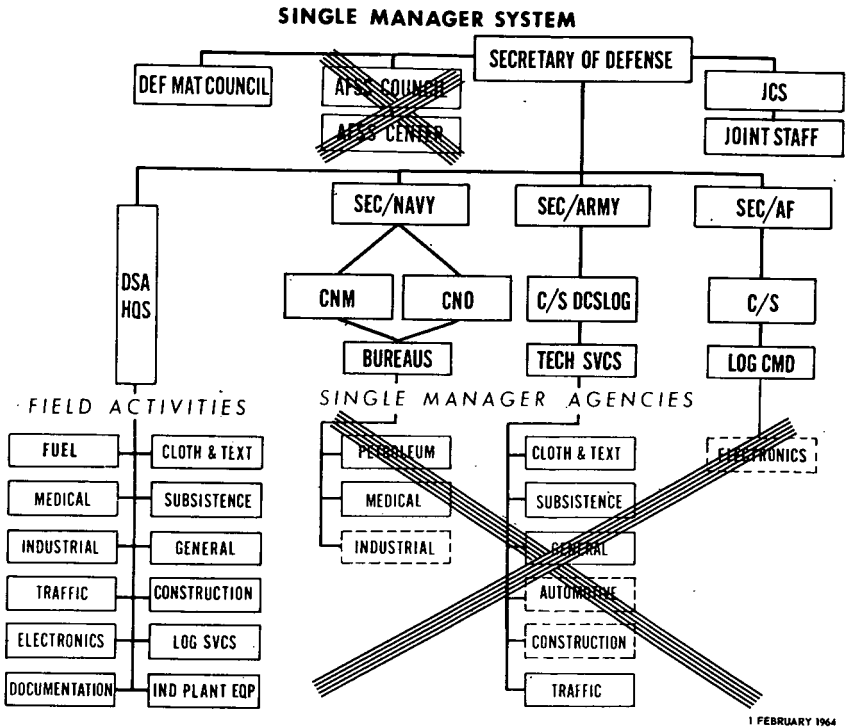
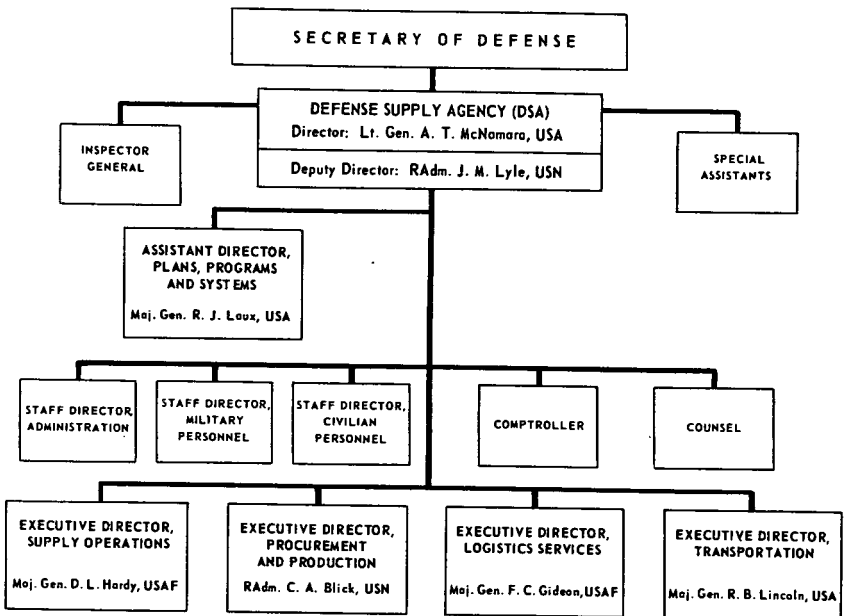


FIGURE 2



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.

Four executive directors—Supply Operations, Procurement and Production, Logistics Services, and Transportation—supervise primary operational functions. Three staff directors—Administration, Military Personnel, Civilian Personnel, and the Comptroller, Counsel, Inspector General, and special assistants perform other normal staff functions of a major headquarters.

The field establishment is comprised of 17 principal commands. These are identified by name, former departmental affiliation, and commander in figure 3. The military command positions are staffed on the basis of equitable military representation. These positions are rotated among the services. The geographical disposition of the DSA field establishment is depicted in figure 4 on page 34.

FIGURE 3
Major field activities

Principal command	Department of origin	Commander and service
Clothing.....	Army.....	Maj. Gen. O. C. Harvey, Army.
Construction.....	do.....	Brig. Gen. R. H. Herman, Air Force.
Electronics.....	Air Force.....	Rear Adm. R. H. Northwood, Navy.
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.....	Brig. Gen. B. C. T. Fenton, Army.
Fuel.....	do.....	Rear Adm. T. L. Becknell, Jr., Navy.
Subsistence.....	Army.....	Maj. Gen. T. B. Evans, Army.
Traffic Management Services.....	do.....	Maj. Gen. R. B. Lincoln, Jr., Army.
Documentation.....	Air Force.....	Dr. R. B. Stegmaier, Jr., civilian.
Defense Depot, Mechanicsburg.....	Navy.....	Capt. A. M. McCrone, Navy.
Defense Depot, Tracy.....	Army.....	Col. W. L. Tate, Army.
Defense Depot, Memphis.....	do.....	Col. S. L. Gillette, Army.
Defense Depot, Ogdén.....	do.....	Col. O. S. Dews, Army.
Industrial Plant Equipment.....	New activity.....	Col. S. F. Langley, Air Force.
Administrative Support.....	do.....	Col. O. R. Rumph, Army.

PROGRESS AND PROSPECTS

DSA has made rapid progress in the assumption of assigned missions (fig. 5). In January 1962, 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 centrally managed exceeded 1 million at the end of fiscal year 1963 and will approximate 1.4 million by the end of fiscal year 1964. At that time the inventory value will exceed \$2.3 billion and the annual rate of procurement will increase to \$3.15 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 31,500 by next June. By the end of fiscal year 1963, DSA had taken over management of all assigned commodities and services, except electronic materiel, and industrial plant equipment. Takeover of electronic materiel is currently scheduled for completion by April 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.

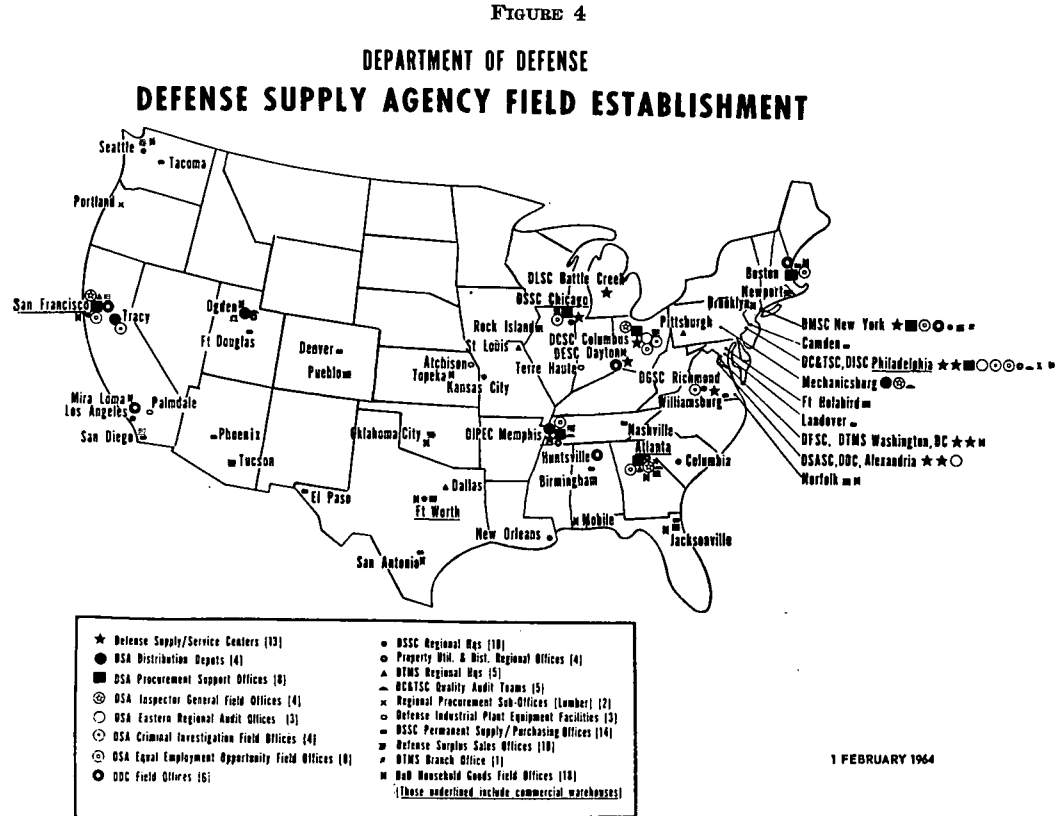


FIGURE 5

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

	January 1962, actual	January 1963, actual	End fiscal year 1963, actual	End fiscal year 1964, projected
Items managed (thousands).....	87	472	1,029	1,379
Inventory (millions of dollars).....	1,588	2,004	2,412	2,331
Procurement (millions of dollars).....		1,839	2,870	3,057
Personnel.....	9,500	24,459	25,970	31,166

DSA OBJECTIVES

When Secretary McNamara appointed me Director of the Defense Supply Agency, 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, materiel requirements determination, technical data, direct support of Army oversea forces, the management of industrial production equipment, and chemical supplies, as well as study of selected aeronautical materiel classes.

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.

Some major accomplishments 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. 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. Further, consolidation of the Army and Marine Corps clothing factories produced a saving of \$0.9 million thus making a total savings for fiscal year 1963 of \$31.3 million. 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. Inventory reduction accomplished during fiscal year 1962 and fiscal year 1963 was \$42 million, and \$234 million, respectively. Inventory reduction planned for fiscal year 1964 and fiscal year 1965 is \$153 million and \$83 million, respectively. This establishes a total inventory reduction accomplished and planned for the 4 fiscal years of \$512 million.

MANAGING THE DSA PROGRAM

The DSA management program recognizes that neither the achievements anticipated in the fiscal year 1964 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 6

Major management cost reduction goals, fiscal year 1964 operating expenses

	<i>Millions</i>
Carryover from fiscal year 1963.....	\$31.3
Improved utilization of ADPE.....	2.3
Distribution system savings.....	2.5
DASC/DCSC merger, 1st and 2d increment.....	2.0
DSSO closures.....	1.2
	<hr/>
Total.....	39.3
	<hr/>
Personnel space reductions.....	5,675

PROCUREMENT

In the procurement area, we are giving major attention to methods of increasing competition, value engineering, increased participation of small business, and improvement of the procurement process. Cost reductions totalling \$5 million should accrue this fiscal year (1964) through these measures.

Increased competition: Some improvement appears feasible in the relatively high percentage of competitive awards for the commodities DSA now procures (fig. 7, p. 37). Our goal is to raise the fiscal year 1963 rate of 91.3 percent competitive to 91.4 percent in fiscal year 1964 and 91.6 percent by the end of fiscal year 1965 by substituting competitive for sole-source awards.

Value engineering—the elimination of “gold plating” in specifications: Despite limited technical resources, some progress has already been made. Cost reductions aggregating \$2.153 million were achieved in fiscal year 1963. 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 adjustment 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.

Small business: The DSA small business program is designed and managed to encourage the widest, qualified competition for its contracts. The following aspects of the program serve to highlight its progress:

(a) DSA is conducting an aggressive program of business counseling through participation in geographically oriented industrial assistance events, in the inauguration of a series of commodity oriented meetings at which DSA business opportunities are presented to potential suppliers in well-defined product areas, and through personal interview, correspondence, and telephone contact. During the 21 months from April 1, 1962, to December 31, 1963, the DSA participated in 46 such industrial assistance events in 21 States.

(b) During the calendar years 1962 and 1963, over 14,900 firms were given procurement counseling assistance and more than 2,300 of these manufacturers were added to bidders lists. Only by such recruitment of new qualified bidders can a vigorous set-aside program be maintained with resultant increase in awards to small firms. Many of these new bidders have been successful in obtaining awards in competition with the regular bidders.

(c) During the first 6 months of fiscal year 1964, \$528 million, or 38.3 percent of the dollars awarded to U.S. firms, went to small business. This compares with \$522 million and 37.2 percent in the same period of fiscal year 1963.

FIGURE 7
Procurement objectives

[In millions of dollars]

	Fiscal year 1964	Fiscal year 1965
Increased competition: Convert sole source to competitive.....	2.0	3.0
(Fiscal year 1963 rate, 91.3 percent).....	91.4	91.6
Value engineering.....	3.0	5.0
Small business: Fiscal year 1963 award ratio, 40.5 percent.....	37.5	-----

Improvement of procurement process: Efforts to improve the procurement process were intensified during the past year. Management reviews conducted at a large number of individual DSA activities as well as across the board at all activities have accentuated for management attention those factors which may be impeding progress, including funding, specifications, requirements determinations, consolidation of buys, and priority designations under MILSTRIP. Action has been taken throughout DSA to improve, wherever possible, in order to achieve the objectives of cost savings, increased competition, greater emphasis on small business and labor surplus area programs, and more timely and effective supply support. Progress has been made in standardizing and simplifying the administrative tasks related to the procurement process and reducing its cost in such areas as small purchases, preaward surveys, and source selection and solicitation. Results are: reduced number of copies of invitations for bids forwarded to and returned by bidders; standardization of a group of clauses; the development of a fast pay procedure for small purchases designed to expedite payment; and application of automatic data processing techniques with specific emphasis on the small purchases area. We have continued to stress and intensify the DSA program of placing responsibility for quality on our contractors with the DSA role limited to verification of their efforts. This program utilizes the vendor's skills and knowledge of his product and eliminates duplication of effort in the quality and reliability fields with resulting economies in manpower and funds. DSA has initiated a basic program which permits it to receive direct comments from, and react in a timely manner to, our customers, the end users in the military services. This program, called quality check, is designed to elicit comments and suggestions regarding supplies furnished in order to improve DSA responsiveness and assure customer satisfaction. Experience to date has been most gratifying.

A significant step taken this past year by DSA to provide more effective control over the quality of drugs furnished the Government was the establishment of the Intragovernmental Procurement Advisory Council on Drugs (commonly referred to as IPAD). Creation of IPAD was a historic development because, for the first time, all Government agencies concerned with drugs now have a means whereby information, ideas, experience, policies, and procedures are being exchanged for evaluation and evolution of better ways to insure adequate specifications and quality as well as more efficient procurement. The Council is comprised of top-level representatives from the Executive Office of the President, Office of Emergency Planning, Department of Defense, Departments of Army, Navy, and Air Force, Public Health Service, the Veterans', General Services, Food and Drug Administrations, and the Defense Supply Agency.

Continuing efforts will provide improvements through tightened standards, better reporting systems on defective and adverse drug reactions, and improved procurement practices which will benefit the general public as well as the Government and the drug industry.

DISTRIBUTION SYSTEM

The Defense Supply Agency determines requirements for wholesale storage space; manages, controls, and operates assigned warehouses and depots; and arranges for the use of storage space and related services and facilities of the Department of Defense, other Government agencies, and commercial warehouses as required. The Defense Supply Agency also arranges transportation for initial distribution of stocks from supplier to point of storage; from point of wholesale storage or the supplier direct to the customer; and for redistribution as required between wholesale storage points.

The DSA distribution system was initiated on January 1, 1963, and implementation completed on July 1, 1963, with two major objectives in mind:

(a) A storage pattern based on the concept of positioning stocks close to the concentrations of military posts and ports of embarkation in the United States.

(b) Centralization of all requisitioning procedures and stock control functions in the Defense Supply Centers, effective July 1, 1963. Thus, the Centers perform all supply management functions such as requisition processing, inventory accountability, financial accounting, reporting, billing, and collecting.

The DSA warehousing and distribution system for military supplies and equipment is an integrated system consisting of 7 principal distribution depots, 4 specialized support depots (fig. 8), and 18 direct supply support points. DSA commodities are now stocked in these 29 installations and 60 military department attrition sites located throughout the United States.

(a) *Principal depots.*—These depots are responsible for the receipt, storage, care, inventory, and issue of DSA items of supply, including general mobilization reserve stocks for the support of specific areas, activities and/or forces designated by Headquarters, Defense Supply Agency. These depots are:

- Defense Construction Supply Center, Columbus, Ohio.
- Defense Depot, Mechanicsburg, Pa.
- Defense Depot, Tracy, Calif.
- Defense Depot, Ogden, Utah.
- Defense Depot, Memphis, Tenn.
- Defense General Supply Center, Richmond, Va.
- Atlanta Army Depot, Forest Park, Ga.

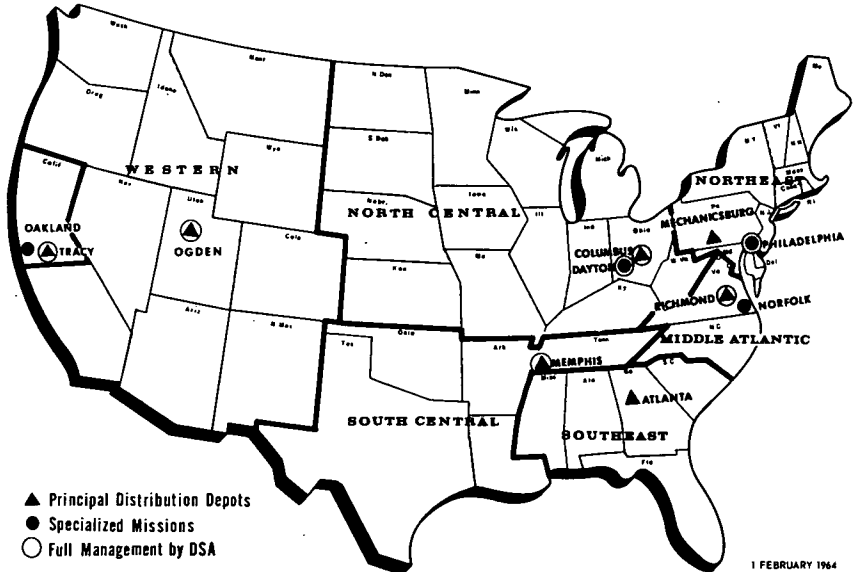
(b) *Specialized depots.*—These depots have functions similar to those of the principal depots, except that their missions are specialized as to type of material or scope of support. These depots are:

- Defense Electronics Supply Center, Dayton, Ohio.
- Defense Clothing and Textile Supply Center, Philadelphia, Pa.
- Naval Supply Center, Norfolk, Va.
- Naval Supply Center, Oakland, Calif.

The first two depots specialize in electronics and clothing and textile material respectively, while the second pair of depots supply the fleet, Navy overseas and nearby military installations.

FIGURE 8

DSA DISTRIBUTION SYSTEM



(c) *Direct supply support points.*—The DSA distribution system also includes a number of direct supply support points which have been established in support of large volume users, such as shipyards and repair facilities. These points are set up under service management control. The supply mission for DSA commodities at these points is restricted to the stocking of a selected range of DSA-owned and centrally managed materiel for the support of on-base industrial and maintenance requirements, fleet units, assigned Navy oversea activities, CONUS Navy activities within a 25-mile radius and such other Navy activities as may be assigned for accounting purposes.

As of January 1964, six of the seven principal distribution depots and two of the specialized support depots are DSA-operated. The remaining principal distribution depot located at Atlanta, operated by the Army, and the two specialized support depots located at Oakland and Norfolk, and 18 direct supply support points at various installations operated by the Navy, are an integral part of the DSA distribution system. As of December 31, 1963, \$1.9 billion of the \$2.3 billion DSA-owned commodities were located at these depots and direct supply support points, the balance of \$432 million being stored at the 60 attrition sites of the military departments. Of the \$432 million DSA-owned commodities stored at these attrition sites, clothing comprises \$159 million stored at 3 locations and industrial materiel \$172 million stored at 28 locations. The number of locations storing industrial materiel is the result of inventory capitalization by DSA. The remaining inventory of \$111 million, consisting of other DSA commodities is located in varying numbers of the attrition sites. Current DSA target date for completion of attrition and movement of all DSA stocks from these military department attrition sites is June 30, 1965.

INVENTORY CONTROL POINTS

Control of DSA inventories is currently distributed among eight supply centers (fig. 9, p. 40). 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.

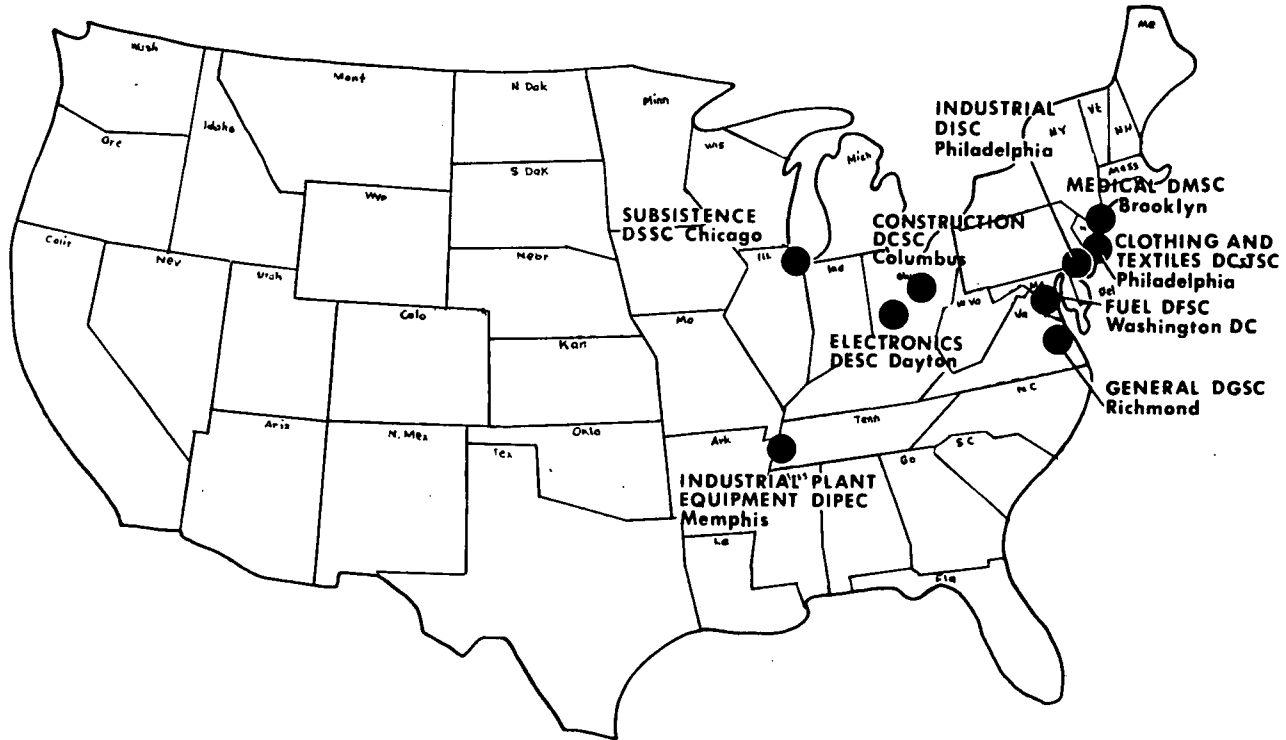
ITEM REDUCTION

We have given major attention to reduction in the number of items in assigned commodity classes (fig. 10, p. 41). As a result of identification of duplicate or similar items and standardization actions, decisions were made to eliminate 37,200 items in the fiscal year 1963. These decisions were based on a review of 95,800 items during the 12-month period. The goal for fiscal year 1964 is a total of 73,600 decisions to be based on a review of approximately 330,000 items. The decisions made during fiscal year 1963 consisted of 28,200 DSA-managed items and 9,000 military service-managed items.

MATERIEL UTILIZATION

Major emphasis has been given to the redistribution of materiel in long supply. Redistribution of materiel among the services has risen from a total of \$228 million in fiscal year 1961 to \$353 million in fiscal year 1962 to \$420 million in fiscal year 1963.

FIGURE 9
INVENTORY CONTROL POINTS (ICP)



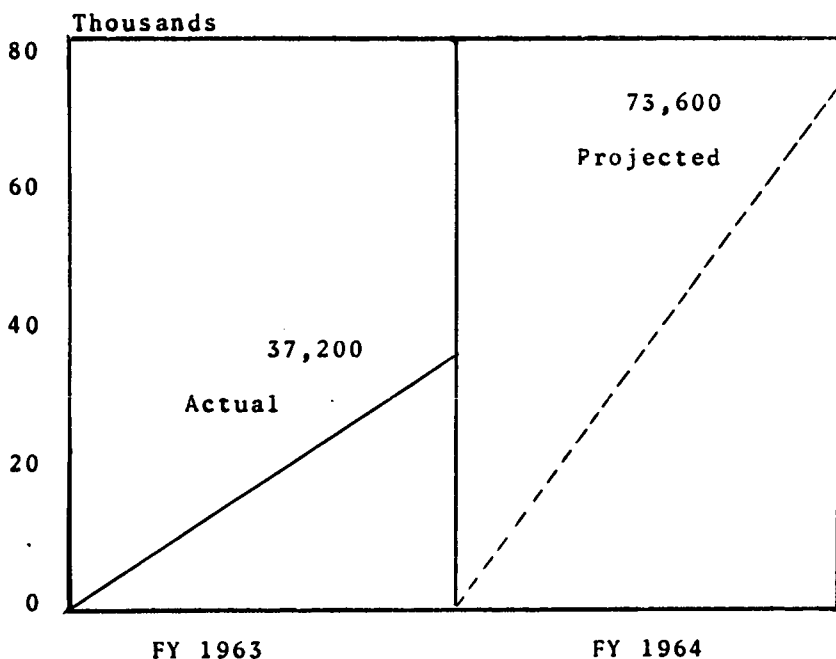
In November 1962, we began a pilot test of centralized mechanized screening of long supply assets versus requirements (Project PLUS). The test was conducted at the Defense Logistics Services Center and was designed to speed up and increase the redistribution of materiel in long supply. The early results of the test were considered sufficiently promising that extension of the Project PLUS procedures to all appropriate Federal supply classes was directed.

A time-phased schedule for implementation of the full Project PLUS program was developed with the military services and in October 1963, asset and requirements data for all scheduled classes had been reported to the Defense Logistics Services Center for inclusion in the computer file. These procedures make it possible to match long supply assets against user requirements and thereby detect opportunities for redistribution before procurement action is initiated.

FIGURE 10

Item Reduction Decisions

DSA Cognizance Items Only



WEAPON SYSTEM PHASEOUT PROGRAM

The continuing development of new and advanced types of military weapon systems is increasing the number of currently operational systems which may be subject to phaseout in the near future. The interservicing potential will be very substantial.

The materiel generating from phased-out weapon systems is widely diversified in character and includes major components and items of a highly specialized and technical nature ranging in cost from a few thousand dollars to \$1 million and up. The effective interservicing of this materiel involves considerations and problems not associated with the redistribution of other types of Government-owned materiel.

Based on the experience gained in the phaseout of the NIKE-AJAX system, the Defense Supply Agency, in mid-1963, established a Weapon Systems Branch within the Materiel Interservicing Division of the Logistics Services Directorate

for the purpose of developing a weapon system phaseout program designed to assist the military services throughout the weapon system phaseout process. The program has, as its major objective, the maximum reutilization of weapon system phaseout materiel by the military services and other eligible Federal agencies.

Weapon system phaseouts

Phased-out weapon systems:	<i>Inter- servicing (millions)</i>
NIKE-AJAX, Army (phaseout in process).....	\$85.0
TERRIER, Marine Corps.....	76.0
HONEST JOHN, Marine Corps.....	20.0
THOR, Air Force.....	11.6
JUPITER, Air Force.....	18.0
SKYBOLT, Air Force.....	8.7
CORPORAL, Army (phaseout in process).....	4.5
LACROSSE, Army (phaseout in process).....	.6

The table shows the current dollar status of interservicing transfers from (1) phased-out systems (TERRIER, HONEST JOHN, JUPITER, and SKYBOLT) and (2) systems in process of phaseout (NIKE-AJAX, CORPORAL, and LACROSSE).

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 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

The Defense Supply Agency 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 item reduction through "simplification" for assigned commodity classes.

During the 33-month period between December 1959 and August 1962, the number of DOD items in the Federal catalog experienced a net growth of 510,000—an average of about 16,000 items per month. This upward trend was reversed in 1963 and a decrease was achieved in the number of DOD items in the catalog.

During calendar year 1963, 525,300 items were added to the Defense catalog and 556,800 items were deleted—a net decrease of 31,600 items. Number of items in the DOD catalog declined from 3,957,500 to 3,925,897 during this period.

The more favorable trend in the control of catalog size was achieved in part through intensive item reduction efforts. Projects such as AIR, MINT, SHAKE-DOWN, and standardization simplification were significant factors in the success achieved in stemming and actually reducing catalog size.

The program of item reduction through standardization is being vigorously pursued and it is estimated that approximately 70,000 items will be identified for elimination from the classes assigned to DSA for management in 1964 through these efforts.

ITEM ENTRY CONTROL

DSA has completed a study of item entry control for items in DSA-managed classes. A time-phased plan for implementation of a system and the buildup of the capability within DSA for item entry control has been developed and approved.

Screening procedures will include the development and distribution of a standard and preferred item file for use by design activities, provisioning screening by manufacturer's part number of listings of items recommended by contractors to support new equipments, and screening of proposed new items by technical characteristics prior to the introduction of such items into the supply system and assignment of Federal stock numbers.

The total implementation of the DSA item entry control system will be accomplished over a period of 4 years. By the time the program is completely implemented, it is estimated that the item entry screening operations will have prevented the entry of 25 percent of the items that would otherwise be allowed to enter without such controls. This estimate is based on screening tests that have been conducted in various commodity areas.

In addition, a DOD Item Entry Control Office has been established within DSA to develop item entry control procedures for application to all commodity areas. Such procedures will apply to Federal supply classes managed by the military services as well as DSA.

SUPPLY EFFECTIVENESS

DSA implemented a uniform system for the measurement of supply effectiveness in November 1962. This system insures standardized reporting by all supply centers and uses two key indicators to measure effectiveness. The first indicator, percent stock availability, measures the performance of centers as inventory managers by determining the percentage of requisitions for stocked items that are initially satisfied by materiel available in stock. Overall availability has been relative high throughout calendar year 1963, running between 87 and 90 percent, and consistently exceeding the overall DSA-established target. However, availability during this period has been below target at certain centers. The major reason for a low rate of availability has been the transfer of items to DSA without sufficient assets to cover requirements or without adequate item intelligence to forecast requirements accurately or procure in a timely fashion. Wherever such deficiencies have occurred, supply centers have taken aggressive action to expedite the replenishment of stocks. DSA's second indicator of effectiveness, percent ontime fill, measures responsiveness by determining the percentage of requisitions shipped within the time limits established by the DOD priority system. Unlike stock availability, the rate of ontime fill for DSA as a whole has been below the DSA established target in recent months although showing an upward trend since July 1963. Action has been taken to identify and eliminate causes for late shipments. It is anticipated that future months will continue to show improvement in the rate of ontime fill.

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.

RESULTS OF MATERIEL MANAGEMENT STUDIES

Industrial plant equipment: The Defense Industrial Plant Equipment Center (DIPEC), a major DSA center located at Defense Depot, Memphis, began operations in September 1963 and is scheduled to reach fully operational status by June 30, 1964. The primary goal of DIPEC is DOD-wide improvement in property management techniques for more effective utilization of industrial plant equipment (IPE). Primary objectives of the DIPEC program are to classify and identify the IPE inventory; establish a uniform IPE inventory recording and reporting system; develop and maintain central inventory records of active and idle IPE; repair and rebuild idle IPE to support current programs and reserve requirements; and to select and maintain usable IPE in minimum required quantities, at minimum locations, with maximum efficiency and economy.

Chemical material: On November 16, 1962, the Secretary of Defense assigned the integrated materiel management of chemical items in 12 Federal supply classes to DSA. Capitalization was completed on November 1, 1963. Approximately 5,500 items are now included under this portion of DOD integrated materiel management with a current inventory value of \$13.5 million and an estimated annual procurement of \$12 million. Also, as an outgrowth of this study, a jointly prepared report on distribution of helium to Department of Defense and other Federal consumers was made by DSA and the Bureau of Mines during October 1963. The report recommended that as an interim measure the Bureau

of Mines assume responsibility for the present Navy helium redistribution complex with a plan for the Bureau of Mines to establish an optimum system comprising six or more redistribution centers.

Aeronautical materiel: The DSA pilot study on aeronautical supplies resulted in a decision by the Secretary of Defense to conduct a full-scale study with the objective of providing for the optimum management of aviation engines and reparable and nonreparable aviation items. The scope of the study encompassed 11 Federal supply classes and about 150,000 items with an estimated inventory value of \$5 billion. The study has been completed and submitted to the Office of Secretary of Defense.

SUMMARY

The Defense Supply Agency has cleared the hurdles inherent in planning for and assuming the activities assigned to it. It has been moving steadily and 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.

APPENDIX 2

UPDATED STATEMENT OF SECRETARY McNAMARA ON THE 5-YEAR COST REDUCTION PROGRAM OF DOD

Last year I reported to you that we had launched a formal 5-year cost reduction program with the objective of achieving by fiscal year 1967 recurring annual savings of \$3.4 billion through improvements in operating efficiency. We completed our first full year of operation under this program on June 30, 1963. Originally, we had set a cost reduction or savings goal of \$750 million for fiscal year 1963; we actually realized savings of almost \$1.4 billion. Since the results of our program were so superior to those which I had predicted last January, I asked that still higher targets be established by the military departments and Defense agencies for future years. As a result, we now are aiming at a recurring annual reduction in overall costs of \$4 billion by fiscal year 1967. The detailed goals and accomplishments of our cost reduction program are shown on table 4.

Because of the accomplishments to date, and those now planned, the fiscal year 1965 budget request reflects estimated savings of \$2.4 billion resulting from three principal categories of actions:

	Estimated savings reflected in fiscal year 1965 budget (billions)	Savings goal by fiscal year 1967 (billions)
1. Buying only what we need	\$1.2	\$1.7
2. Buying at the lowest sound price.....	.6	1.1
3. Reducing operating costs.....	.6	1.2
Total.....	2.4	4.0

While our fiscal year 1965 budget request already reflects anticipated savings amounting to more than half of our total 5-year cost reduction objective, I do not want to leave you with the impression that this objective will be easily accomplished or that we can relax our efforts in the slightest if we are to achieve it. Furthermore, President Johnson has added even greater emphasis and urgency to our efforts, and to those of the 7,500 principal defense contractors to whom he wrote on December 2, 1963, calling on them to seek ways of reducing defense procurement costs (see p. 54).

I would like to highlight for you some of the savings we have made—and hope to make in the future—without sacrificing our essential military readiness:

A. BUYING ONLY WHAT WE NEED

1. Refining requirements calculations

Procurement of weapons, parts, supplies, and services takes more than 55 percent of each defense dollar. Thus our greatest potential for making savings lies in reducing the types and quantities of items purchased for defense inventories. These inventories currently comprise some 4 million different items. As shown in table 4, we realized savings of \$769 million in fiscal year 1963 by our management actions in this area.

The fiscal year 1965 budget request reflects anticipated savings of \$1.1 billion as a result of more refined requirements calculations. For example:

(a) Major equipment requirements have been reduced by more careful analysis of the quantities needed to equip our forces. For example, the Secretary and Chief of Staff of the Army have examined the tables of organization and equipment for each type of Army division and have found ways of cutting quantitative requirements on dozens of end items, including radios,

guns and vehicles, without detriment to combat capability. By increasing the efficiency of its overhaul and repair depots, the Air Force has halved the out-of-service maintenance time for aircraft, missiles and other major equipment, thus reducing the total number of end items required. The Navy has significantly reduced its requirements for certain air defense weapons by calculating its needs on the basis of the specific mission to be performed in each case. As a result, requirements for SPARROW and SIDEWINDER in fiscal years 1964 and 1965 were adjusted downward by approximately 45 percent.

(b) Even more dramatic progress has been made in cutting both initial and replacement purchase requirements for parts and supplies. For fiscal year 1965, the Air Force's budget reflects a reduction of about \$476 million in total obligational authority because of more precise requirements calculations for aircraft and missile system spares, stepped-up actions to reduce stock levels, and a better reporting system which enables a more effective utilization of assets on hand and at operating bases worldwide. The Army has introduced the new uniform issue priority system permitting reduction in order and shipping time by an average of 15 percent, thereby reducing the size of the inventory that must be maintained. The Navy was able to reduce its inventory requirements for spares, establishing more realistic stock support of firstline aircraft by providing for priority processing of repairable items, and cutting procurement leadtimes.

During the past year we have also added new projects to our cost reduction program which are designed to reduce the cost of acquiring technical manuals and other technical data, and to minimize Government investment in production equipment and facilities as shown on table 4. This latter cost reduction project is based on more vigorous application of our policy of encouraging contractors to furnish their own general purpose equipment and facilities.

2. Increased use of excess materiel in lieu of procurement

Last year we transferred to productive use over \$1.2 billion of excess and long supply inventories, \$183 million more than in fiscal year 1961. The total of excess and long supply stocks on hand was thereby reduced to \$11.9 billion—the lowest level since the Korean emergency. Our goal is to increase this rate to \$1.4 billion annually by the end of fiscal year 1965. Reutilization of these stocks is a genuine avoidance of cost since under our approved 5-year force structure we would otherwise have to procure the same or similar items, either now or in the future.

Under the direction of the Defense Supply Agency, central screening offices have been established to promote the reuse of all types of excess equipment, machine tools, and supplies among Defense activities. Recent examples of reutilization actions, chosen at random from among the hundreds occurring regularly, are the following:

The Army received 31 aircraft engines from the Air Force, saving	\$800, 000
The Navy received from the Army 2-fire control systems for use as components in the manufacture of electronic countermeasure equipment, avoiding additional procurement of	884, 458
The Air Force reclaimed parts from 10 excess missiles for use on another weapon, avoiding additional procurement of	3, 034, 392
DSA modified excess trousers to permit issue in lieu of new procurement, saving	451, 573

3. Eliminating "goldplating" through value engineering

We know that procurement of excessive quality is just as wasteful as procurement of excessive quantities. During the past several years, new parts and components have been entering our supply system—to support new weapons and other end items—at the rate of over 45,000 per month. Many of these items are designed and specifications for them established before we have the benefit of experience in actual use. As a consequence, such items frequently incorporate performance features (e.g., capacity, strength, durability, temperature resistance, and light weight) in excess of those necessary to the proper functioning of the item. This "goldplating" needlessly increases the cost of some items by as much as 2 to 10 times.

To reduce the waste caused by "goldplating," we met with 1,200 representatives of industry last fall, and I wrote personally to the presidents of 7,500 companies, inviting them to give our procurement specifications a most critical appraisal and to propose ideas for eliminating unnecessary qualitative requirements. As an inducement, we are offering our contractors a share of any savings

resulting from acceptable proposals. Our own technical, engineering, and procurement personnel are also being trained to search out such opportunities, and their performance in this regard will be taken into account in making future procurements. A manual has been published and formal classroom training is being conducted to assist in meeting these objectives.

In fiscal year 1963, the cost of military hardware was reduced by \$72 million, with no sacrifice in required performance, as a result of the "value engineering" ideas developed by defense contractors and our own technical staffs. During fiscal year 1965 we hope to double these savings to \$145 million.

The potential for savings in this area is well illustrated by the following examples of recent value-engineering actions:

	Unit cost		Savings on annual procurement
	Before redesign	After redesign	
1. Cooling system on F-8D Crusader aircraft—2 piece fan-cooling device substituted for 6-piece air-conditioning system.....	\$1,243.00	\$253.00	\$89,100
2. Oil seal for F-106 engine—a 1-piece seal substituted for a 2-piece magnetic seal.....	56.47	2.97	39,788
3. 105 millimeter cartridge case—steel substituted for brass, and 2 parts eliminated.....	10.43	6.80	555,000
4. Diode used in test equipment—commercial diode substituted for special military diode.....	10.00	1.89	115,000
5. Tweezers for first-aid kits—plated carbon steel substituted for surgical stainless steel.....	.50	.15	85,000

4. Inventory item reduction

Another way in which procurement requirements are inflated is through the unintentional addition of duplicate items to our stores catalogs as a result of incomplete information on new items or unnecessary variations in specifications such as color, method of packing, etc. These duplicate items receive separate Department of Defense catalog numbers and are separately procured and separately stored in our warehouses. This results in excess inventory and adds at least \$100 per item per year to our management costs. During the past 2 years, the military departments have assigned special task forces to screen out duplicate and unnecessary items, with the result that 434,000 more items have been purged from our supply systems. At an average savings of \$100 per item, this achievement represents a cost avoidance of \$43 million per year. For example, in the case of handtools, over one-third of the 25,000 items previously stocked in our inventory have been marked for elimination. Our aim is to continue a high rate of item elimination during fiscal year 1965 and in future years. A special effort will be made to insure that, whenever possible, our design contractors choose items already in the Defense catalog.

B. BUYING AT THE LOWEST SOUND PRICE

The second major objective of the cost reduction program is to buy at the lowest sound price. To this end, our efforts are designed, first, to increase the degree of competition in the procurement process by shifting whenever possible from noncompetitive to competitive procurement; and second, to maximize the incentives to us and to our contractors to increase efficiency by shifting away from cost-plus-fixed-fee contracts to fixed-price or price-incentive contracts. As shown on table 4, our goal is to realize by fiscal year 1967 annual savings of about \$1.1 billion through these two basic improvements. Actions initiated in fiscal years 1962 and 1963 will, when completed, achieve over 60 percent of this objective. We believe that our fiscal year 1965 budget is about \$600 million less than it otherwise would have been had these shifts in the form of procurement not been achieved since calendar year 1961.

1. Shifting from noncompetitive to competitive procurement

In 1961, we studied a large number of General Accounting Office and congressional committee reports which concluded that millions of dollars were being wasted because of the failure to obtain price competition more extensively in the procurement of spare parts and smaller end items. Our own analysis of procurement procedures fully confirmed those conclusions and, as a result, I instructed

the military departments to increase the proportion of the total value of contracts awarded on the basis of price competition. The departments responded by:

Setting quotas for the improvement to be achieved by each major buying office in fiscal years 1963, 1964, and 1965.

Planning the principal end items expected to be procured during the 3-year period, specifying the method of procurement and the type of procurement contract to be used. Such advance planning is essential to insure that the drawings and specifications required for competition are on hand when needed.

Adopting standard procedures under which special research teams select—up to 1 year in advance—high value parts and components which can be safely “broken out” from the end item for separate competitive procurement.

Establishing triservice schools at Fort Lee, Va., and Dayton, Ohio, to train personnel in improved procurement techniques. Over 19,000 procurement personnel will have been sent to these schools in the 3-year period ending June 30, 1964.

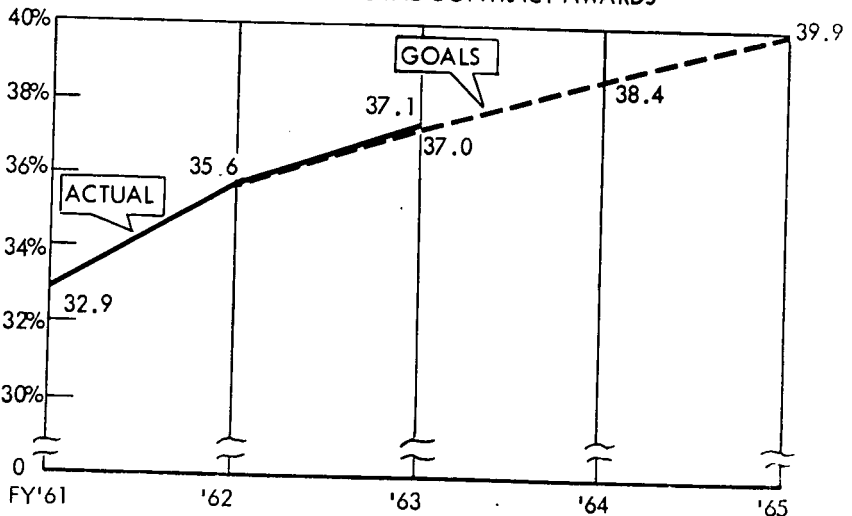
As a result of these efforts, both the proportion and the volume of competitive procurement have increased significantly:

[Dollar amounts in billions]

Fiscal year	Awarded by price competition	
	Volume	Percent of total
1961		
1963	\$8.1	32.9
	10.8	37.1

By the end of fiscal year 1965, we hope to raise the proportion of price competition to nearly 40 percent of total dollar awards, as shown below:

CONTRACTS AWARDED ON BASIS OF COMPETITION AS A PERCENT OF TOTAL CONTRACT AWARDS



At the end of fiscal year 1963, we analyzed a large number of cases where price competition had been obtained. We concluded that, on the average, 25 cents of each dollar of procurement converted from sole source to price competition was being saved—and that savings in fiscal year 1963 amounted to \$237 million:

Estimated savings from increased price competition, fiscal year 1963

	<i>Millions of dollars</i>
Aircraft components and parts.....	50
Missile components and parts.....	34
Electronic and communications items.....	52
Vehicles.....	28
Ships and components.....	58
Weapons and ammunitions.....	7
Supplies and services.....	8
Total.....	237

Here are some of the more dramatic examples of price savings actually achieved:

Item	Noncom- petitive price	Competitive price	Savings on first com- petitive pro- curement
Receiver transmitter.....	\$2,677.00	\$1,091.00	\$1,271,920
Radio receiver.....	1,519.00	1,034.00	741,655
Gasoline engine.....	453.00	325.00	409,600
Radiosonde (high altitude weather detection).....	170.00	76.70	565,000
Fluid filter.....	79.40	26.74	59,882
Missile launcher hook.....	5.97	3.46	32,210

Another innovation in the past year has been the use, in selected cases, of multiyear competitive contracts for end items on which there is a firm requirement for continuous production over 2 or more years. This technique produces additional price savings by avoiding annual startup costs and giving the winning producer an incentive to offer a lower price based on the efficiencies he can achieve over a longer production run.

Looking to the future, we are calling on our principal prime contractors to reexamine their own procurement practices and to set goals for increasing the volume of subcontracts placed on the basis of price competition. We believe that this may provide a fertile source of additional price reductions to the Government—about half the value of all prime contracts is subcontracted.

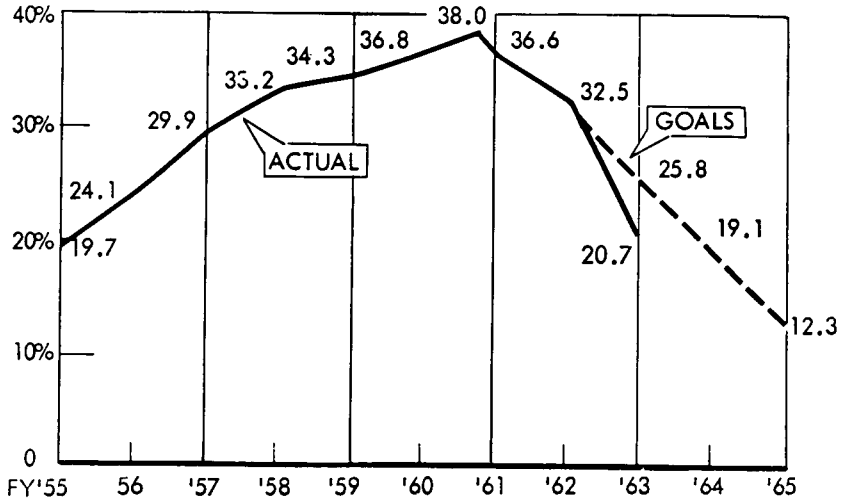
2. Shifting from cost-plus-fixed-fee (CPFF) to fixed-price and incentive contracts.

A major cause of cost overruns on major development programs has been the lack of detailed advance planning which is an absolute prerequisite for the close pricing of contracts and the close supervision of contractor performance. In great part, this inadequate planning and control in the past was made possible by the widespread use of CPFF contracts, under which we pay a fixed fee and reimburse the contractor for whatever allowable costs he incurs. Such open-ended arrangements also encourage premature initiation of development projects. Moreover, they provide no incentive for us to define precisely in terms of performance characteristics, delivery dates and costs what it is we wish to procure.

Between fiscal years 1955 and 1961 the volume of CPFF contracts almost doubled, reaching a peak rate of 38 percent of the total value of awards in the first 9 months of fiscal year 1961. It was clear that prompt and firm action would have to be taken to reverse this trend and, accordingly, the military departments were directed to limit CPFF contracts primarily to exploratory research and study projects. As a result the value of such contracts dropped to 20.7 percent of total awards in fiscal year 1963, representing a shift of more than \$4 billion of contracts from CPFF. The trend this fiscal year is still downward, and our goal by the end of fiscal year 1965 is to reach and maintain a rate of 12.3 percent, as shown in the chart on page 50.

For every dollar shifted from CPFF to a fixed-price or price-incentive form of contract, we estimate that we save 10 cents by increasing efficiency and by reduction in the huge cost overruns which have characterized many development programs in the past. Thus we believe that the sharp reduction in the use of CPFF contracts through fiscal year 1963 has made possible a reduction of at least \$400 million in the fiscal year 1965 budget.

**COST PLUS FIXED FEE CONTRACTS AS A
PERCENT OF TOTAL CONTRACT AWARDS**



Helping to achieve this sharp reduction in CPFF contracts are a number of basic improvements in the management of weapons system developments projects. These include:

The more extensive use of the "project definition" phase during which as much as 1 year is spent in planning projects prior to award of major contracts. For example, a 1-year "project definition" phase preceded the initiation of the TITAN III program.

The use of performance evaluation and review techniques (PERT) which identify the thousands of important events or decision points which must be monitored continuously both by Department of Defense and its contractors during the course of a major development project. In the TITAN III program, for example, biweekly reports are received from the prime systems contractor on 2,500 key events indicating cost and time progress.

The organization of full-time project management offices within the military departments to supervise the execution of large weapons projects. Currently there are over 100 project management offices in the Department compared to only 50 in 1961.

The refinement of profit negotiation techniques which permit target profits to be based on the actual effort and risk assumed by the contractor, instead of on historical percentages which did not vary appreciably from contract to contract.

A new "performance scorecard" recording how well a contractor actually performs with respect to his contractual commitments on major development projects. This record will be a significant factor in determining future source selections.

A 50-percent reduction in value of letter contracts outstanding during the past 12 months—with a goal of a two-thirds reduction to be attained by June 30, 1964. Accomplishment of this goal would reduce such contracts from their peak level of \$3 billion to less than \$1 billion.

C. REDUCING OPERATING COSTS

The third key objective of the cost reduction program is to increase efficiency of supply, maintenance, transportation, and communications services. As shown on table 4, our 5-year goal in this area is recurring annual savings of \$1.2 billion. Actions initiated in fiscal years 1962 and 1963, when completed, will achieve about half of this objective. Our fiscal year 1965 budget request reflects over \$600 million of reductions resulting from the following kinds of actions:

1. Terminating unnecessary operations

President Kennedy, in March 1961, directed that I move promptly to identify and eliminate bases and installations no longer needed for the support of long-term military requirements, and President Johnson has strongly reaffirmed this directive.

As of the end of fiscal year 1963, we had made decisions and announced base closing actions which, when completed, will produce \$336 million in annual savings. Since then, additional decisions have been announced which, ultimately, will increase the level of savings to \$479 million annually—80 percent of our fiscal year 1967 goal of \$600 million. As a result of our efforts to date, we were able to reduce the fiscal year 1965 budget request for the operation of installations by \$358 million. These are net savings which reflect the absorption of one-time closing and relocation costs.

In addition to these savings, the termination of unnecessary operations announced to date will produce the following results:

Real estate released (acres).....	645, 600
Industrial plants with commercial potential made available for sale (plants).....	58
Positions eliminated.....	71, 430

In 1961 we established a full-time Office of Economic Adjustment to work with employees and communities affected by these reductions and base closings. Based upon the experience gained in these efforts during the past 3 years, we believe that, by careful advance planning and an extensive freeze on new hiring, we will be able to assure a job offer to every employee whose job is eliminated. If the new job requires a move to another Government installation, our policy in the case of career employees and their families, is to pay the expenses involved.

2. Consolidating and standardizing operations

This project is concerned with eliminating unnecessary overhead and personnel expense through: the consolidation of common support functions previously performed separately by the military departments; and the standardization of procedures and operating practices among the military departments.

(a) Defense Supply Agency: The most notable savings from consolidated operations have resulted from the creation in October 1961 of the Defense Supply Agency (DSA), to buy, store and issue common items. The DSA by June 30, 1964, will have assumed central management of 1.5 million items with an annual sales of \$1.8 billion. In fiscal year 1963 DSA operated with 3,475 fewer civilian employees than were formerly required for these same functions, saving \$31 million. In fiscal year 1965, DSA's civilian staff will be 7,514 fewer than that required for the same functions prior to the establishment of DSA, producing a direct reduction in the fiscal year 1965 budget of \$54 million. In addition, by consolidation and better management of its inventories, DSA, by June 30, 1965, will draw down its total inventory investment by \$512 million from pre-DSA levels.

(b) Simplification and standardization of procedures: Cost reduction goals have been set by each military department for savings from other actions to simplify and standardize procedures. These actions include the consolidation of 81 transportation documents into 1, which became effective on October 1, 1963; the consolidation of 16 different requisitioning systems into 1 uniform system on July 1, 1962; the purchase of automatic data processing equipment for proven business applications in lieu of renting such equipment; further mechanization of mass paperwork procedures, etc. By fiscal year 1967 recurring annual savings of \$101 million are expected to accrue from these actions. The fiscal year 1965 budget request reflects anticipated savings of \$20 million in this area.

(c) We have just completed an intensive study of the contract administration services activities of the military departments. More than 400 field offices employing in excess of 43,000 people are presently engaged in this work throughout the Department of Defense. As a result of this study, we are now revising the Armed Services Procurement Regulations to provide for uniform policies and procedures covering many functions such as the inspection and acceptance of materiel, the evaluation of contractors' ability to perform under Government contracts, the approval of contractors' accounting and purchasing systems, the security clearance of contractors' facilities and personnel, and the on-the-spot analysis of cost proposals.

We are also undertaking a pilot test to evaluate the feasibility of consolidating the contract administration services of the military departments in specific geographic areas. We hope by the middle of this year to have gathered sufficient operational experience to determine the feasibility of consolidating these field activities throughout the system. I feel confident that substantial operational and cost benefits, to both Government and industry, can be derived from these efforts.

3. Increasing operating efficiency

The final group of cost reduction projects is designed to reduce the operational costs of a variety of logistical support functions. The following savings have been made in the fiscal year 1965 budget:

(a) Communications systems costs: A reduction of \$49 million, attributable to the reduced cost of procuring leased lines services, and more effective use of existing defense and commercial communications services. Recurring annual savings of \$66 million are targeted by fiscal year 1967.

(b) Transportation and traffic management: A reduction of \$12 million, attributable to increased use of economy class air travel, decreased cost of household goods shipments, and more economical use of airlift for cargo movements. Recurring annual savings of \$24 million are targeted by fiscal year 1967.

(c) Equipment and noncombat vehicle maintenance management: A reduction of \$131 million, attributable to better management resulting from improved cost accounting; improved planning and scheduling procedures; more comprehensive analysis of failure data; and increased use of civil service employees in lieu of contract technicians. Annual savings of \$340 million are planned by fiscal year 1967, to be obtained primarily by achieving higher standards of productivity for the 1 million employees engaged in these operations at over 2,000 locations worldwide.

(d) Real property and housing management: A reduction of \$18 million, attributable to improved cost accounting and employee performance standards, reductions in the cost of purchased utilities, consolidation of public works functions, and greater economy in execution of repairs and alterations. Annual savings by fiscal year 1967 are targeted at \$63 million.

Department of Defense cost-reduction program

[In millions of dollars]

	Estimated savings to be realized in			Annual savings by fiscal year 1967 from actions initiated fiscal year 1962 through		
	Fiscal year 1963 ¹	Fiscal year 1964 ¹	Fiscal year 1965 ¹	Fiscal year 1963	Fiscal year 1964	Fiscal year 1965
A. Buying only what we need:						
1. Refining requirements calculations:						
a. Major items of equipment.....	\$90	\$293	\$373	\$106	\$266	\$320
b. Initial spares provisioning.....	163	133	134	167	144	155
c. Secondary items.....	481	670	607	481	620	564
d. Technical manuals.....				6	14	14
e. Production base facilities.....	35	13	19	35	13	16
f. Technical data and reports.....		2	4		23	47
2. Increased use of excess inventory in lieu of new procurement:						
a. Equipment and supplies.....		16	15	164	284	394
b. Idle production equipment.....	1			1	7	13
c. Excess contractor inventory.....	18	1	1	18	20	20
3. Eliminating "gold plating" (value engineering).....	72	14	15	72	116	14
4. Inventory item reduction.....				43	48	34
Total, buying only what we need.....	860	1,142	1,168	1,093	1,555	1,722

Department of Defense cost-reduction program—Continued

[In millions of dollars]

	Estimated savings to be realized in			Annual savings by fiscal year 1967 from actions initiated fiscal year 1962 through		
	Fiscal year 1963 ¹	Fiscal year 1964 ¹	Fiscal year 1965 ¹	Fiscal year 1963	Fiscal year 1964	Fiscal year 1965
B. Buying at the lowest sound price:						
1. Shift from noncompetitive to competitive procurement:						
Total percent competitive ²	(37.3)	-----	-----	(37.1)	(38.4)	(39.9)
Total amount of savings.....	\$237	\$176	\$216	\$237	\$304	\$375
2. Shift from CPFF to fixed or incentive price:						
Total percent CPFF ⁴	-----	-----	-----	(20.7)	(19.1)	(12.3)
Total amount of savings.....	-----	-----	\$436	\$436	\$573	\$668
3. Breakout for direct purchase.....	-----	-----	-----	-----	\$11	\$24
Total buying at lowest sound price.....	\$237	\$176	\$652	\$673	\$888	\$1,067
C. Reducing operating costs:						
1. Terminating unnecessary operations.....	\$123	\$310	\$359	\$336	\$479	\$600
2. Consolidating and standardizing operations:						
a. DSA operating expense savings ⁵	31	38	53	31	39	54
b. Departmental operating expense savings.....	-----	7	20	1	44	101
3. Increasing efficiency of operations:						
a. DCA and communication systems savings.....	80	129	49	83	129	66
b. Improved transportation and traffic management.....	24	12	12	24	24	24
c. Improved equipment maintenance management.....	-----	28	109	106	191	289
d. Improved noncombat vehicle management.....	2	12	12	3	12	24
e. Reduced use of contract technicians.....	-----	9	9	-----	20	27
f. Improved military housing management.....	6	6	8	6	12	25
g. Improved real property management.....	23	3	9	23	34	38
h. Reduced cost of packaging.....	-----	1	1	-----	7	7
Total reducing operating costs.....	289	555	641	613	991	1,255
Total program.....	1,386	1,873	2,461	2,379	3,434	4,044

¹ Includes certain 1-time savings not expected to recur in future years.

² In addition, fiscal year 1962 "requirements" for major items of equipment were reduced by \$24,000,000,000. In fiscal year 1963, the Army reduced 1964 pipeline requirements by \$500,000,000.

³ Fiscal year 1961 was 32.9 percent; total annual conversion from sole source by end of fiscal year 1965 or \$1,600,000,000—savings are 25 percent per dollar converted.

⁴ For the 1st 9 months of fiscal year 1961, CPFF was 38 percent; a reduction of \$6,700,000,000 is required to reduce that percentage to 12.3 percent; savings are 10 percent per dollar converted.

⁵ Excludes DSA inventory drawdown without replacement of \$234,000,000 in fiscal year 1963; \$153,000,000 in fiscal year 1964; and \$83,000,000 in fiscal year 1965, a total of \$470,000,000.

⁶ Goals reported to Congress "as estimated Jan. 15, 1963," were fiscal year 1963, \$1,894,000,000; fiscal year 1964, \$2,889,000,000; fiscal year 1965, \$3,444,000,000.

THE WHITE HOUSE,
Washington, December 2, 1963.

DEAR MR. -----: In addressing the Congress last week, I pledged my administration to the utmost of thrift and frugality, and to get a dollar's value for every dollar spent.

I have directed the heads of all Government agencies to accelerate immediately their efforts to operate their programs at the lowest possible cost. The Secretary of Defense has already established a cost reduction program aimed at achieving annual savings of \$4 billion, through efforts now in process or planned by fiscal year 1967, and he has further committed his Department to realize \$1.5 billion of these savings in the current fiscal year. More than 55 cents out of each Defense dollar is sent by its contractors. It is for this reason that I am calling on you personally to assist me and the Secretary in achieving further significant reductions in Defense expenditures.

It is my desire that you establish an affirmative program of cost reduction in the performance of Defense contracts, both those which you now hold and those which you may subsequently receive. If you already have such a program in being, then I call on you to accelerate, expand, and intensify this effort.

I have asked the Secretary of Defense to take into account the accomplishments of contractors who successfully reduce the cost of Defense procurement, when making future source selections, and in determining profit and fee rates on non-competitive negotiated contracts.

I have also discussed this program with the Director of the Budget and the Comptroller General.

The Secretary of Defense's letter, elaborating this program is enclosed. It has my fullest endorsement.

Sincerely,

(S) LYNDON B. JOHNSON.

THE SECRETARY OF DEFENSE,
Washington, December 2, 1963.

DEAR MR. -----: I suggest that you give particular attention to reducing Defense procurement costs by assisting the Defense Department in achieving its three primary cost reduction objectives, which are:

- Buying only what is needed.
- Buying at the lowest sound price.
- Reducing operating costs.

You can assist us in buying only what is needed by critically appraising procurement specifications to identify both qualitative and quantitative requirements in excess of those needed to assure safe and reliable operation of military equipment. Some Defense contractors now have formal value engineering programs, and such contractors have been able to recommend hundreds of ideas to reduce costs of parts, components, and end items by as much as 50 percent. I urge all contractors to stress such critical examinations, and to propose cost savings ideas promptly to Defense officials.

The second major way in which contractors can reduce Defense costs is by taking steps to assure that their own purchases are made at the lowest sound price. Defense prime contractors spend, on an average, 50 cents of each contract dollar with subcontractors. To the fullest possible extent, such subcontracts should be placed competitively in order to stimulate the full play of the free enterprise system. It is the experience of the Defense Department that for every dollar shifted from noncompetitive to competitive procurement, 25 cents or more can be saved from the price. In placing subcontracts, fixed price and incentive contracts should be employed wherever possible, in order to provide the maximum incentive to subcontractors.

Third, Defense contractors can reduce the overall cost of Government by assuring that their own internal operations are conducted in the most economical manner. Effective manpower utilization programs to increase productivity, strong budgetary controls to reduce both direct and overhead costs, simplification of procedures, and elimination of unnecessary activities—are all matters with which I know you are constantly concerned. Wherever unreasonable Government requirements are contributing to excess costs, I invite you to call these matters promptly to the attention of the proper Government offices.

In conclusion, I urge that you give to these and other cost reduction ideas, which I know will occur to you, your immediate personal attention and that you join with me in achieving full value for every dollar spent in support of our national defense.

Sincerely,

(S) ROBERT S. McNAMARA.

APPENDIX 3

U. S. GENERAL ACCOUNTING OFFICE REPORTS ON DEFENSEACTIVITIES ISSUED TO THE CONGRESS DURING THEPERIOD MARCH 1, 1963, THROUGH FEBRUARY 25, 1964

<u>Index Number</u>	<u>Report File Number</u>	<u>Date</u>	<u>Title of Report</u>	<u>Department</u>
1.	B-146774	March 12, 1963	Report on Examination of Unnecessary Costs incurred by the Department of the Navy in the Procurement of Air-born Early Warning Search Radars	Navy
2.	B-146772	March 14, 1963	Report on Review of Ineffective Repair Support for Combat and Combat-support Vehicles by the Army Tank-automotive Center, Detroit, Michigan	Army
3.	B-146779	March 21, 1963	Report on Review of Unnecessary Costs to the Government for Packing Shipments of Household Goods for Air Force, Navy, and Marine Corps Personnel	Defense
4.	B-146775	March 21, 1963	Report on Review of the Supply Management of Electric Lamps within the Department of Defense	Defense
5.	B-146764	March 22, 1963	Report on Review of Retention by General Dynamics/Pomona (Convair), A Division of General Dynamics Corporation, Pomona, California of Refunds Related to Illegally Imposed Local Taxes Included in the Prices of Department of the Navy Contracts	Navy
6.	B-146747	March 27, 1963	Report on Review of Overpricing of Spare Electronics Parts under Department of the Army Fixed-price Contracts DA-18-119-SC-651, -654, and -799 with Burroughs Corporation, Detroit, Michigan	Army
7.	B-132974	March 29, 1963	Report on Review of the Overpricing of Spare Parts and Modification Kits purchased from Hazeltine Corporation, Little Neck, New York, by Grumman Aircraft Engineering Corporation, under Department of the Navy Cost-plus-a-fixed-fee Contract NOas 56-987c	Navy

<u>Index Number</u>	<u>Report File Number</u>	<u>Date</u>	<u>Title of Report</u>	<u>Department</u>
8.	B-146714	March 29, 1963	Report on Review of Excessive Costs of a Fire Extinguisher Replacement Program in the Department of the Army	Army
9.	B-132983	March 29, 1963	Report on Review of Uneconomical Utilization and Premature Disposal of Aircraft Spark Plugs by the Department of the Air Force	Air Force
10.	B-146717	March 29, 1963	Report on Review of Overpricing of Target Seeking Systems for the Bomarc Missile under Department of the Air Force negotiated Contract AF 33(600)-38098 with the Boeing Company, Seattle, Washington	Air Force
11.	B-125037	April 16, 1963	Report on Review of Causes of Overpayments of Military Pay and Allowances, Department of Defense	Defense
12.	B-133313	April 17, 1963	Report on Follow-up Review of Supply Management of Selected Radio Communication Sets within the Department of the Air Force	Air Force
13.	B-146780	April 17, 1963	Report on Review of the Disposition of Insurance Premium Refunds received under a New York State Disability Benefits Insurance Policy by Grumman Aircraft Engineering Corporation, Bethpage, N. Y.	Defense
14.	B-146786	April 17, 1963	Report on Review of Unnecessary Costs incurred because of Failure of the Army to Store M35 Trucks in Covered Storage Space	Army
15.	B-133201	April 18, 1963	Report on Review of the Excessive Costs of Long-distance Message Communications in the Armed Services	Defense

<u>Index Number</u>	<u>Report File Number</u>	<u>Date</u>	<u>Title of Report</u>	<u>Department</u>
16.	B-133325	April 24, 1963	Report on Examination of Rentals charged for Equipment owned and operated by Morrison-Knudsen Company, Inc., Boise, Idaho, a Sub-contractor under Department of the Air Force Prime Contract, AF 33(600)-29717 with Western Electric Company, Incorporated, New York, N.Y., in Construction of the White Alice Communication System in Alaska	Air Force
17.	B-125096	April 30, 1963	Report on Payment of Insufficient Rental by Curtiss-Wright Corporation, Wright Aeronautical Division, Wood-Ridge, New Jersey for Commercial Use of Government-owned Facilities furnished by the Department of the Air Force	Air Force
18.	B-146732	April 30, 1963	Report on Review of the Excessive Cost of Leasing Compared with Buying Certain Electronic Data Processing Equipment by the Department of the Air Force	Air Force
19.	B-146783	May 16, 1963	Report on Review of the Procurement by the Army of Defective Canvas End Curtains for 3/4-ton and 2-1/2-ton Cargo Trucks	Army
20.	B-146756	May 17, 1963	Report on Examination of the Abnormally High Prices of Polaris Missile Parts under Subcontracts Awarded to The Brush Beryllium Company by Lockheed Aircraft Corporation and Charged to the Navy under a Cost-plus-a-fixed-fee Contract	Navy
21.	B-146778	May 17, 1963	Report on Review of Realignment of Item Management Responsibilities in the Air Force Logistics Command Pursuant to Implementation of the Federal Cataloging Program Department of the Air Force	Air Force

<u>Index Number</u>	<u>Report File Number</u>	<u>Date</u>	<u>Title of Report</u>	<u>Department</u>
22.	B-146781	May 20, 1963	Report on Examination of Catalog Prices Charged for Airborne Radar Beacons Developed with Government Funds and Supplied to the Military Departments and Their Prime Contractors under Non-competitive Procurements with ACF Electronics Division, ACF Industries Incorporated, Paramus, New Jersey	Defense
23.	B-146785	May 29, 1963	Report on Ineffective Programing, Delivery, and Utilization of Aircraft and Related Equipment Furnished to the Portuguese Air Force under the Military Assistance Program	Defense
24.	B-146793	May 29, 1963	Report on Unnecessary Costs Incurred Because of Delay of the Army in Equipping M51 Utility Trucks with Necessary Fixtures to Facilitate Use in Airborne Operations	Army
25.	B-133280	May 31, 1963	Report on Excessive Costs incurred for Rehabilitating to Original Appearance and Serviceability Military Equipment Donated to Foreign Nations under the Military Assistance Program, Department of Defense	Defense
26.	B-146778	May 31, 1963	Report on Ineffective Utilization of Supply Items Resulting from Deficiencies in the Federal Catalog System Within the Department of Defense	Defense
27.	B-146791	May 31, 1963	Report on Substantial Amounts of Little-used Nontactical Construction Equipment being held on Okinawa by the Military Services	Defense
28.	B-146796	June 17, 1963	Unnecessary Costs Incurred Because the Navy Failed to Purchase Leased Automatic Data Processing Components Offered at Reduced Prices	Navy

<u>Index Number</u>	<u>Number</u>	<u>Date</u>	<u>Title of Report</u>	<u>Department</u>
29.	B-146797	June 18, 1963	Excess Costs of Milk Purchased by the Naval Supply Center, Norfolk, Virginia for the Guantanamo Naval Station, Guantanamo Bay, Cuba	Navy
30.	B-146794	June 21, 1963	Unnecessary Costs Incurred by the Department of the Navy in the Procurement of RPM Comparators	Navy
31.	B-146734	June 25, 1963	Government's Loss of Capability to Competitively Procure Replacement Spare Parts for Military Gas Turbine Engines Developed under Contracts with United Aircraft Corporation, East Hartford, Connecticut	Navy
32.	B-133102	June 25, 1963	Unnecessary Expenditures for Exterior Storage Facilities Serving Family Housing by the Department of the Army at Fort Dix, New Jersey	Army
33.	B-146795	June 26, 1963	Overpricing of Teletypewriters Procured by Department of the Army Negotiated Contract with Kleinschmidt Division, Smith-Corona Marchant, Inc. Deerfield, Illinois	Army
34.	B-132913	June 27, 1963	Unnecessary Payment by the United States of Costs Properly Chargeable to Japan for Administrative and Related Expenses of the Military Assistance Program for Japan	Defense
35.	B-133149	June 28, 1963	Unnecessary Expenditures of More than \$1 Million for Storage of Petroleum in a Commercial Facility at Plattsburgh, New York, Department of Defense	Defense
36.	B-133226	June 28, 1963	Unnecessary Costs to be Incurred Under the Military Departments' Proposals for Continued Operation of Separate Army and Navy Hospitals in the San Francisco Bay Area, California	Defense

ECONOMIC ASPECTS OF MILITARY SUPPLY

<u>Index Number</u>	<u>Report File Number</u>	<u>Date</u>	<u>Title of Report</u>	<u>Department</u>
37.	B-133396	June 28, 1963	Follow-up Review of Noncompetitive Procurement of Aeronautical Replacement Spare Parts within the Department of the Army	Army
38.	B-118755	June 28, 1963	Overprocurement of Transponders for the NIKE-HERCULES Guided Missile System by the Department of the Army	Army
39.	B-146802	June 28, 1963	Report on Overpricing of Adaption Kits for M-113 Vehicles Under Department of the Army Contract Negotiated with FMC Corporation, San Jose, California	Army
40.	B-145331	June 28, 1963	Report on Illegal Transactions under the Army Stock Fund	Army
41.	B-146727	June 28, 1963	Report on Overprocurement of Magnetos and Distributors for Reciprocating Aircraft Engines by the Department of the Navy	Navy
42.	B-118763	June 28, 1963	Report on Failure of the Department of the Navy to Fully Recover Excessive Administrative Cost Allowances included in Fixed Prices Negotiated with Brown-Raymond-Walsh (A Joint Venture) Under Contract NOy-83333 for the Spanish Base Construction Program	Navy
43.	B-133396	June 28, 1963	Report on Follow-up Review of Non-competitive Procurement of Aeronautical Replacement Spare Parts in the Department of the Air Force	Air Force

<u>Index Number</u>	<u>Report File Number</u>	<u>Date</u>	<u>Title of Report</u>	<u>Department</u>
44.	B-133303	July 12, 1963	Report on Uneconomical Use of Parts Kits to Support Depot Overhaul Activities in the Air Force Logistics Command, Department of the Air Force	Air Force
45.	B-133134	July 16, 1963	Report on Ineffective Maintenance and Utilization of Equipment Furnished to Iran Under the Military Assistance Program	Defense
46.	B-133134	July 30, 1963	Report on Inadequate Administration of Military Budget Support Funds Provided to Iran Under the Foreign Assistance Program	Defense
47.	B-146807	July 31, 1963	Report on Unnecessary Planned Procurement of 36,000-BTU Air Conditioners by the Department of the Army	Army
48.	B-146799	July 31, 1963	Report on Impairment of Combat Readiness of a Department of the Army Combat Unit at Fort George G. Meade, Maryland, resulting from Lack of Repair Parts	Army
49.	B-146725	July 31, 1963	Report on Overprocurement by the Department of the Navy of Spare Guidance Components for the Shipboard Repair of Improved Tartar Missiles	Navy
50.	B-133149	July 31, 1963	Report on Unnecessary Annual Expenditures by the Departments of the Air Force and the Navy for Leasing Commercial Facilities to Store Petroleum Products in the San Francisco, California area instead of using Excess Government-owned Petroleum Facilities at the Navy Fuel Department, Point Molate, Richmond, California	Defense

ECONOMIC ASPECTS OF MILITARY SUPPLY

<u>Index Number</u>	<u>Report File Number</u>	<u>Date</u>	<u>Title of Report</u>	<u>Department</u>
51.	B-146788	July 31, 1963	Report on Additional Costs Resulting from Procurement of Test Equipment as Special Tooling under Cost-plus-a-fixed-fee Contracts awarded to Lockheed Aircraft Corporation, Missile and Space Division, Sunnyvale, California, by the Departments of the Air Force and the Navy	Defense
52.	B-146801	July 31, 1963	Report on the Increased Price for Ballistics Computers Resulting from Excessive Estimated Material Costs Under Department of the Air Force Contract AF O9(603)-34097 with Servomechanisms, Inc., El Segundo, Calif.	Air Force
53.	B-146784	July 31, 1963	Report on Noncompetitive Procurement of Military Aircraft Forgings from Aluminum Company of America at Prices Substantially Higher than Current and Expected Costs of Production	Defense
54.	B-146800	Aug. 7, 1963	Report on Unjustified Cost-of-living Allowances Paid in the Alaskan Command to Military Personnel not Accompanied by Dependents, Department of Defense	Defense
55.	B-146774	Aug. 26, 1963	Report on Unnecessary Costs Incurred in the Procurement of Radar Altimeters, Department of the Navy	Navy
56.	B-133102	Aug. 30, 1963	Report on Illegal Use of Operation and Maintenance Funds for Rehabilitation and Construction of Family Housing and Construction of a Related Facility of the Department of Defense	Defense
57.	B-133371	Aug. 30, 1963	Report on Continued Uneconomical Use of First-class Air-travel Accommodations by Employees of Defense Contractors	Defense

<u>Index Number</u>	<u>Report File Number</u>	<u>Date</u>	<u>Title of Report</u>	<u>Department</u>
58.	B-146805	Aug. 30, 1963	Report on Unreasonably High Prices Paid for Nickel Cadmium Aircraft Storage Batteries Under Negotiated Fixed-price Contract AF 01(601)-22629 with Sonotone Corporation, Elmsford, New York, Department of the Air Force	Air Force
59.	B-133058	Sept. 11, 1963	Report on Increased Costs Resulting from Failure to Procure Ships Spare Parts Competitively or Directly from the Manufacturer, Department of the Navy	Navy
60.	B-133396	Sept. 17, 1963	Report on Unnecessary Costs resulting from the Noncompetitive Procurement of Aeronautical Replacement Spare Parts by the Department of the Navy	Navy
61.	B-146803	Sept. 19, 1963	Report on Procurement of Defective Rocker Arm Assemblies for Combat Vehicle Engines from Hawk Tool and Engineering Company, Clarkston, Michigan Army	
62.	B-146812	Sept. 19, 1963	Report on Excessive Cost to the Government for Leasing instead of Purchasing Analog Computer Systems for use under Negotiated Defense Contracts by the Martin Marietta Corporation at its plant in Orlando, Florida	Defense
63.	B-146733	Sept. 20, 1963	Report on Overcharges by Westinghouse Electric Corporation for Propulsion Machinery for the Aircraft Carrier U.S.S. ENTERPRISE	Navy
64.	B-146551	Sept. 30, 1963	Report on Payments to Naval Reserve Officers on Annual Active Duty Training for Unnecessary Days of Travel and for Days in which no Training or Travel is performed	Navy

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<u>Index Number</u>	<u>Report File Number</u>	<u>Date</u>	<u>Title of Report</u>	<u>Department</u>
65.	B-146794	Sept. 30, 1963	Report on the Unnecessary Procurement of Helicopter Components by the Department of the Navy	Navy
66.	B-146816	Sept. 30, 1963	Report on Overstatement of Needs and Illegal Use of Commercial-type Vehicles by the Kanto Base Command, Japan, 6100th Support Wing, United States Air Force	Air Force
67.	B-146807	Oct. 15, 1963	Unnecessary Procurement of Specially Designed 60,000-BTU Air Conditioners Department of the Army	Army
68.	B-146814	Oct. 15, 1963	Unnecessary Procurement and Repair Costs by the Department of the Army for J-2 Gyro Magnetic Compass components Available in the Military Supply Systems, Department of Defense	Defense
69.	B-146817	Oct. 15, 1963	Unnecessary Cost in the Procurement of Clutch Pressure Plates, Department of the Army	Army
70.	B-118763	Oct. 21, 1963	Department of Defense Reply to B-118763, June 28, 1963, Failure of the Department of the Navy to Fully Recover Excessive Administrative Cost Allowances Included in Fixed Prices Negotiated with Brown-Raymond-Walsh (A Joint Venture) Under Contract NOy-83333 for the Spanish Base Construction Program	Navy
71.	B-125071	Oct. 24, 1963	Excessive Costs Included in Prices for FALCON Missile Components Purchased from Avco Corporation, Crosley Division, Cincinnati, Ohio, by Hughes Aircraft Company, Culver City, California, Under a Negotiated Contract, Department of the Air Force	Air Force

<u>Index Number</u>	<u>Report File Number</u>	<u>Date</u>	<u>Title of Report</u>	<u>Department</u>
72.	B-133177	Oct. 28, 1963	Unnecessary Costs Incurred Because of Failure to Standardize Tropical Wool Trousers, Department of the Army and Marine Corps.	Defense
73.	B-118694	Oct. 29, 1963	Use of Former Government Surplus Parts Without Authorization Under Contract DA-23-204- TC-1695 with Aerodex, Inc., Miami, Florida, Department of the Army	Army
74.	B-146827	Oct. 29, 1963	Unnecessary Annual Expenditures by the Departments of the Army and Navy for Leasing Commercial Facilities to Store Government-owned Empty 55-Gallon Steel Drums in the Los Angeles, California Area, Department of Defense	Defense
75.	B-133102	Oct. 30, 1963	Unnecessary Costs Incurred Because of Administrative Negligence and Poor Design in the Construction of Two Capehart Housing Projects, Department of the Air Force	Air Force
76.	B-146829	Oct. 30, 1963	Unnecessary Costs Incurred by Use of an Inadequate Interior Protective Coating for Fuel Truck Tankers, Department of the Army	Army
77.	B-146822	Oct. 31, 1963	Illegal Per Diem Payments to Military Personnel of the Navy and Marine Corps Serving as Military Inspection Representatives in Tokyo and Osaka, Japan, Department of the Navy	Navy
78.	B-146832	Oct. 31, 1963	Unsatisfactory Condition of Combat Vehicles and Equipment in the 3d Marine Division (Reinforced), Okinawa United States Marine Corps, Department of the Navy	Navy

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<u>Index Number</u>	<u>Report File Number</u>	<u>Date</u>	<u>Title of Report</u>	<u>Department</u>
79	B-146732	Nov. 13, 1963	Unnecessary Costs Incurred by Leasing Rather than Purchasing Electronic Data Processing Equipment at White Sands Missile Range New Mexico, Department of the Army	Army
80	B-132989	Nov. 29, 1963	Report on Overprocurement of Selected Accessories for Jet Aircraft Engines by the Military Services	Defense
81	B-146823	Nov. 29, 1963	Report on Uneconomical Procurement of Electronic Equipment Under Contract AF 01(601)-31042 With Grumman Aircraft Engineering Corporation, Bethpage, Long Island, New York	Defense
82	B-146828	Nov. 29, 1963	Report on Uneconomical Management of Commercially Available Items	Defense
83	B-146835	Nov. 29, 1963	Report on Unnecessary Procurement of Office Furniture for Use in the Pentagon	Air Force
84	B-146736	Dec. 12, 1963	Report on Overpricing of Modification Kits for Interrogator Sets Under Fixed-Price Contract With General Instrument Corporation, Newark, New Jersey	Army
85	B-125071	Dec. 16, 1963	Report on Overpricing of Spare Parts Purchased From Hughes Aircraft Company, Culver City, California Under Fixed-Price Incentive Contract AF 33(600)-38280	Air Force
86	B-146834	Dec. 17, 1963	Report on Procurement of Inaccurate Radiation Measuring Instruments	Army

<u>Index Number</u>	<u>Report File Number</u>	<u>Date</u>	<u>Title of Report</u>	<u>Department</u>
87	B-146833	Dec. 19, 1963	Report on Excessive Price Paid for Propulsion Reduction Gears Purchased from Westinghouse Electric Corporation, Sunnyvale, California	Navy
88	B-133177	Dec. 19, 1963	Report on Unnecessary Costs Being Incurred As A Result of the Navy's Refusal to Accept the Standardized Officers' Dress Shoes Agreed Upon by the Army, Air Force, and Marine Corps	Defense
89	B-146779	Dec. 20, 1963	Report on Unnecessary Costs Incurred for Temporary Storage of Household Goods for Military Personnel	Defense
90	B-125036	Dec. 20, 1963	Report on Erroneous Reporting of Taxable Income and Taxes Withheld from Pay of Military Personnel, Department of the Air Force	Air Force
91	B-146732	Dec. 24, 1963	Report on Excessive Cost of Leasing Compared with Buying Certain Electronic Data Processing Equipment at Kirtland Air Force Base, New Mexico	Air Force
92	B-114808	Dec. 30, 1963	Report on Overestimated Costs Included in Prices Negotiated for Modification of Aircraft Engine Test Stands Under Fixed-Price Contracts with Space Corporation, Dallas, Texas	Air Force
93	B-146035	Dec. 31, 1963	Report on Erroneous Purchase of a Technical Data Package from Westinghouse Electric Corporation for \$1,010,000	Navy

<u>Index Number</u>	<u>Report File Number</u>	<u>Date</u>	<u>Title of Report</u>	<u>Department</u>
94	B-133396	Jan. 10, 1964	Report on Increased Costs Resulting from the Procurement of Spare Parts under Contracts for Related Aeronautical Equipment, Department of the Air Force	Air Force
95	B-146780	Jan. 13, 1964	Report on Improper Disposition of Refunds of Group Insurance Premiums by Grumman Aircraft Engineering Corporation, Bethpage, New York	Navy
96	B-133369	Jan. 14, 1964	Report on Pricing of Selected Spare Parts for ARC-34 Communication Equipment Under Air Force Fixed-Price Contracts Negotiated with the Magnavox Company, Fort Wayne, Indiana	Air Force
97	B-132989	Jan. 14, 1964	Report on Overbuying and Unnecessary Overhaul Costs Resulting from Failure of the Air Force to Follow the Navy's Practice of Separating Accessories from Spare Reciprocating Aircraft Engines	Air Force
98	B-146807	Jan. 16, 1964	Report on Unnecessary Procurement Initiated for 9,000-BFU Air Conditioners	Army
99	B-146836	Jan. 24, 1964	Report on Unnecessary Cost Incurred in the Procurement of AN/ARN 21C TACAN Radio Components Through Failure to Accept Option Offer	Air Force
100	B-146856	Jan. 28, 1964	Report on Unnecessary Costs Relating to Reassignment of Management Responsibility for Tool Sets	Army

<u>Index Number</u>	<u>Report File Number</u>	<u>Date</u>	<u>Title of Report</u>	<u>Department</u>
101	B-132989	Jan. 30, 1964	Report on Overbuying and Unnecessary Overhaul Costs Resulting from the Failure of the Army to Follow the Navy's Practice of Separating Accessories from Spare Reciprocating Aircraft Engines	Army
102	B-133295	Jan. 31, 1964	Report on Excessive Charges for Components for M60 Tanks under Contract with Chrysler Corporation, Detroit, Michigan	Army
103	B-146843	Jan. 31, 1964	Report on Increased Costs Incurred for Ammonium Perchlorate Purchased During 1961 for Solid-Propellant Missile Motors, Department of the Air Force	Air Force
104	B-146733	Jan. 31, 1964	Report on Overpricing of Ship Propulsion Boilers Purchased under Fixed-Price Contract Nobs-76301 Negotiated with Foster Wheeler Corporation, New York, N. Y.	Navy
105	B-146844	Jan. 31, 1964	Report on Excessive Stocks at Selected Bases Of United States Fifth Air Force in Japan And Korea	Air Force
106	B-146831	Jan. 31, 1964	Report on Ineffective Program Planning and Uneconomical Utilization of Personnel Assigned to the Air Force Reserve Recovery Program	Air Force
107	B-146733	Feb. 6, 1964	Report on Overpricing of Nuclear Reactor Components Purchased from Westinghouse Electric Corporation, Pittsburgh, Pennsylvania Under Cost-Plus-A-Fixed-Fee Contracts Awarded by the Bureau of Ships	Navy

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108	B-146848	Feb. 7, 1964	Report on Unnecessary Costs Resulting From Government Production of M14 Rifle Repair Parts Rather than Procurement from Commercial Sources	Army
109	B-118695	Feb. 7, 1964	Report on Overpricing of B-58 Aircraft Bomber Recording Systems by Melpar, Inc., Falls Church, Virginia on Fixed-Price Purchase Order 509 with General Dynamics Corporation, Fort Worth, Texas	Air Force
110	B-146852	Feb. 11, 1964	Report on Unnecessary Costs Incurred in the Enlistment and Discharge of Unqualified Applicants for Regular and Reserve Forces	Navy
111	B-146760	Feb. 12, 1964	Report on Overpricing of Nuclear Submarine Components Purchased by Plant Apparatus Division, Westinghouse Electric Corporation under two Subcontracts Awarded to Edwin L. Wiegand Company, Pittsburgh, Pennsylvania	Navy
112	B-146844	Feb. 17, 1964	Report on the Uneconomical Replacement of Vehicles by the United States 5th Air Force, Fuchu Air Station, Japan	Air Force
113	B-146861	Feb. 17, 1964	Report on Improper Payments to Military Personnel for Travel of Dependents	Army
114	B-125037	Feb. 17, 1964	Report on Deficiencies in Administration of Government Quarters, Messing Facilities, and Military Leave at Dow Air Force Base, Maine	Air Force

<u>Index Number</u>	<u>Report File Number</u>	<u>Date</u>	<u>Title of Report</u>	<u>Department</u>
115	B-146725	Feb. 18, 1964	Report on Overprocurement of Spare Fuze Component Used for Repair of Improved TARTAR and HOMING TERRIER missiles	Navy
116	B-146762	Feb. 18, 1964	Report on Development, Procurement, and Deployment of an Unsatisfactory Missile System, Department of the Army	Army
117	B-146846	Feb. 19, 1964	Report on Overpayments Made Under a Cost-Plus-A-Fixed-Fee Contract for the Procurement of Nuclear Submarine Components from Combustion Engineering, Inc., New York, N. Y.	Navy
118	B-146807	Feb. 19, 1964	Report on Unnecessary Procurement Initiated or Planned Because Equipment Requirements were Overstated by White Sands Missile Range, New Mexico	Army
119	B-146813	Feb. 25, 1964	Report on Excessive Interest Expense Included in Price Negotiated for Petroleum Storage under Contract ASP-21801 with New England Tank Industries of New Hampshire, Inc.	Defense
120	B-146796	Feb. 25, 1964	Report on Plans for Purchase of Leased Automatic Data Processing Components in Use at Military Installations	Defense

DIGESTS OF U.S. GENERAL ACCOUNTING OFFICE REPORTS ON DEFENSE ACTIVITIES ISSUED TO THE CONGRESS DURING THE PERIOD MARCH 1, 1963 THROUGH FEBRUARY 25, 1964

(Filed by Subject Matter)

SUPPLY MANAGEMENT

Index No. 4

B-146775, March 21, 1963

Report on Review of the Supply Management of Electric Lamps within the Department of Defense

Our review disclosed that inventory managers within the Department of Defense have not given appropriate consideration to commercial availability and distribution costs in determining whether lamps should be supplied by local purchase or through service supply channels. As a result, the military departments are centrally managing over 1,000 supply items of electric lamps that are readily available to using activities at local commercial outlets, generally at the same prices. The cost to centrally manage an electric lamp item in the supply system averaged over \$1,000 per year. The average annual inventory for each item amounted to about \$5,000. Therefore, we estimate that supply management costs can be reduced at least \$1.2 million annually and supply inventories can be reduced at least \$5.5 million by decentralized procurement of commercial lamps.

In addition, we found an accumulation of inventories that included approximately 670,000 electric lamps, valued at about \$253,000, which were in excess of current operating and mobilization reserve requirements. All of these lamps were readily available from local commercial sources. One depot had on hand 21,400 units of a certain electric lamp worth \$3.15 each, or a total of \$67,410, which exceeded established requirements. On the basis of issues for the year we examined, this quantity represented 41 years' supply. The donation of these lamps to various State activities was subsequently authorized.

We brought our findings to the attention of the Secretary of Defense. In a letter from the Assistant Secretary of Defense (Installations and Logistics), dated November 20, 1962, we were informed that during and subsequent to the period of our review the military departments had implemented improved supply management techniques. He advised us that each of the departments had conducted a review and that all departments plan to conduct further reviews, with the objective of buying electric lamps locally where possible. For example, the Navy expects to authorize for local procurement 503 supply items of electric lamps by April 1963, leaving only 155 items in the supply system.

The measures referred to by the Assistant Secretary of Defense, if properly implemented and applied to all military supply activities including those which we did not review, should effectively reduce supply management costs and excessive inventories. We will consider the effect of decentralized management with respect to other commercial-type items in our continuing reviews.

Index No. 8

B-146714, March 29, 1963

Report on Review of Excessive Costs of a Fire Extinguisher Replacement Program in the Department of the Army

The Corps of Engineers incurred unnecessary costs of about \$1.2 million in the procurement of a new, higher cost, portable fire extinguisher because the new extinguisher did not represent an improvement over the old one to the degree that would justify the additional costs. About \$94,000 of the unnecessary cost was attributable to procurement by the Corps of Engineers of a nonshatterable cylinder with the new fire extinguisher when it was known that the nonshatterable feature was not required. After we pointed out the high costs of the replacement program, the Corps of Engineers made a reevaluation of the program. As a result, future issues of the new extinguisher should be greatly reduced. The Corps of Engineers was able, at a cost of about \$15,000, to terminate \$153,000 of procurement under contract and to cancel purchase requests amounting to an additional \$313,000. These amounts are not a part of the excess costs of \$1.2 million.

We recommended that our report on this case and our recent similar reports on generators, crane shovels and outboard motors, and compressed gas cylinders be used by the military departments as illustrations to emphasize to personnel responsible for the introduction of new items of equipment, the necessity of determining whether the costs of replacing existing items, in relation to any advantages

expected, justify introduction of the new items. We also recommended that the Secretary of Defense provide for maintaining surveillance over the introduction of new items into the supply system to assure that such determinations are made, and that they are based on accurate information as to any increased costs involved in relation to benefits to be obtained.

Index No. 9
B-132983, March 29, 1963

Report on Review of Uneconomical Utilization and Premature Disposal of Aircraft Spark Plugs by the Department of the Air Force

Our review disclosed that using activities were not obtaining the minimum desired service life from platinum electrode spark plugs and that relatively unused spark plugs were being returned to the San Antonio Air Materiel Area for reclamation or scrap disposal. As a result, requirements for fiscal year 1963 were overstated by about \$4.6 million. The Air Force had already procured \$3.6 million worth of spark plugs against this requirement. At our suggestion, the requirements for these platinum electrode spark plugs were recomputed by personnel at San Antonio and, based on this computation, action was taken by them to defer indefinitely the procurement of the remaining \$1 million worth of spark plugs.

Our review disclosed also that the Air Force has been using new platinum electrode spark plugs costing as much as \$4 each for certain test purposes, although surplus stocks of less expensive, massive electrode spark plugs costing about \$1.25 each could have been used for these tests. During the period of our review the Air Force prescribed more widespread use of surplus stocks of massive electrode spark plugs instead of the more expensive platinum electrode spark plugs for these test purposes. This action is expected to result in additional savings of approximately \$4.6 million in the 3-year period estimated by the Air Force as the time required to consume the surplus stocks.

We believe that the deficient practices which we identified resulted from the failure to maintain proper surveillance over the actual utilization practices of field units, giving rise to the operating conditions which resulted in substantial premature or unnecessary expenditures for aircraft spark plugs. After we brought our finding to the attention of the Air Force, prompt corrective action was taken, including the issuance of instructions by the San Antonio Air Materiel Area that using activities obtain and use newly authorized servicing kits to recondition platinum electrode spark plugs thereby significantly extending the service life of these items.

Because the uneconomical practices identified in our review of the Department of the Air Force may also exist in the Departments of the Army and Navy, we recommended that the Secretary of Defense direct a review of the practices followed by these services in the utilization and disposal of aircraft spark plugs and that we be advised of the results of that review.

Index No. 12
B-133313, April 17, 1963

Report on Follow-up Review of Supply Management of Selected Radio Communication Sets within the Department of the Air Force

In May 1960 we reported to the Congress on the results of our review of supply management of electronic supplies and equipment within the Department of Defense. One of the findings which we reported was the fact that the Air Force held supplies of certain radio components over and above its known requirements, valued in excess of \$11 million, while the Army was in need of, and was procuring, these same components. We also pointed out that additional quantities of these components valued at over \$22 million were unaccounted for by the Air Force. We pointed out that, if these latter components could be located and they were found to be excess to Air Force needs, they also could be made available for use by the Army. When apprised of these conditions, the Army and the Air Force arranged for the transfer of substantial quantities of excess Air Force assets. In addition, Air Force officials agreed to take steps to locate and account for the lost assets and to make available to the Army any additional assets found to be excess to Air Force requirements and still needed by the Army.

Our follow-up review, undertaken to evaluate the nature and effectiveness of the Air Force's promised corrective action, disclosed that the Air Force had conducted a worldwide review and had accounted for almost \$20 million of these radio components. Many of these components were excess to Air Force needs,

and the Air Force took prompt and vigorous steps to make those additional excess assets available to the Army during the period from February 1960 to July 1962.

As a result of both our initial review and the subsequent corrective measures taken by the Air Force, excess radio equipment valued by the Air Force at more than \$16 million was transferred to the Army to satisfy that service's requirements.

In a letter dated January 21, 1963, the Department of the Air Force commented on the follow-up work performed by this Office and expressed both appreciation for our continued interest and the confidence of the Air Force that the procedures established as a result of our original report would prevent future deficiencies of the types originally brought to their attention.

Index No. 14

B-146786, April 17, 1963

Report on Review of Unnecessary Costs incurred because of Failure of the Army to Store M35 Trucks in Covered Storage Space

Our review disclosed that unnecessary costs estimated at up to \$300,000 were incurred by the Government in reconditioning 900 M35 trucks as a result of their being stored in the open for about 3 years at Letterkenny Army Depot, Chambersburg, Pennsylvania, although sufficient vacant covered warehouse storage space was available at the Naval Supply Depot, Mechanicsburg, Pennsylvania, only 50 miles away.

This accelerated deterioration occurred because the Army failed to implement the policy of the Department of Defense to utilize to the maximum extent possible available covered storage space in the Department of Defense as well as in civilian agencies of the Government. Furthermore, the Army's comments to us on the matter are directed toward justifying its action in this instance rather than providing any specific information on how it expects to comply with and implement the above policy of the Department of Defense. Accordingly, we recommended to the Secretary of Defense that installations confronted with major storage problems be required to coordinate their needs with a central activity within the Department of Defense possessing current and accurate information on available covered storage space in the Government.

Index No. 21

B-146778, May 17, 1963

Report on Review of Realignment of Item Management Responsibilities in the Air Force Logistics Command Pursuant to Implementation of the Federal Cataloging Program Department of the Air Force

Between 1958 and 1962 management responsibilities for more than 250,000 items in the Air Force supply system were transferred among various item managers and installations in the Air Force Logistics Command. This realignment was made necessary by the conversion from the Air Force system of classifying commodities and assigning stock numbers to the system prescribed under the Federal Cataloging Program for all the military departments.

Because of inadequate coordination between organizations involved in the realignment and failure of the Air Force Logistics Command to effectively supervise the activities of these organizations to insure an orderly transition, material valued at more than \$9 million was lost to management control. As a result, unnecessary procurement actions were initiated because requirements computations were based on incomplete or inaccurate data. We believe that the failure of existing Air Force procedures to promptly bring to light the loss of control over material described in our report is indicative of inadequacies in the Air Force system of reporting and accounting for inventory.

We found also that deficiencies in requirements determinations at one installation had resulted in previously initiated procurement actions not being canceled when the material was no longer required. When these deficiencies, and additional assets identified by our review, were brought to the attention of Air Force officials, they were able to cancel about \$4 million of unnecessary procurement actions. These procurement actions consisted primarily of purchase requests which had been approved for procurement but had not yet been placed on contract.

The Department of the Air Force agreed with our conclusion that the Logistics Command had not supervised the actions of its organizations sufficiently during this realignment of management, and advised us that pertinent Air Force manuals have been revised to insure orderly and efficient transfers of management responsibilities in the future. In addition, we were informed that regulations have been, or are being, improved where necessary to strengthen require-

ments procedures and that particular attention is to be given to the cited deficiencies during various material management reviews conducted by the Logistics Command and Headquarters, United States Air Force.

Although it is important that the Logistics Command effectively supervise and control the actions of its various organizations to assure compliance with established systems and procedures, we believe what an effective system of inventory accounting with appropriate checks and controls is of fundamental importance to alert management when breakdowns in procedures, such as the lack of coordination that occurred in this case, are resulting in loss of control over material. We therefore recommended that the Secretary of the Air Force develop appropriate controls, including such improved accounting procedures as may be necessary, to prevent a recurrence of these conditions.

Index No. 26

B-146778, May 31, 1963

Report on Ineffective Utilization of Supply Items Resulting from Deficiencies in the Federal Catalog System within the Department of Defense

Our review disclosed that weaknesses in cataloging procedures of the Department of Defense have permitted the frequent assignment of two or more stock numbers to identical supply items. We made a limited examination into the effects of having more than one stock number for the same item and found ineffective utilization, including unnecessary purchases, of supplies valued at more than \$100,000. This occurred because supply items on hand were not recognized as being the same as needed items. We believe that the excess costs resulting from this deficiency are significant, particularly when the administrative cost of establishing and maintaining extra stock numbers in the Federal Catalog System is added to the cost of unnecessary procurements likely to occur under these circumstances.

We also noted the lack of a defensewide system for identifying interchangeable or substitutable supply items and, during our limited review, identified instances where available assets valued at \$230,000 were not considered and utilized to fill existing needs. Similar deficiencies in identifying available material, valued at several million dollars, which could have been used to satisfy needs within the Department of Defense were discussed in earlier reports issued by this Office (B-133313, September 15, 1961, and B-146748, August 31, 1962).

Further, unnecessary costs are being incurred because stock numbers are maintained in the Federal Catalog System for hundreds of thousands of supply items that either are inactive or are not recurrently used.

We brought our findings to the attention of the Secretary of Defense and have been advised of actions being taken to correct the deficiencies discussed in our report. While we believe that these actions, properly implemented, should serve to improve the cataloging system, we made further recommendations to the Secretary of Defense for improvement.

Index No. 27

B-146791, May 31, 1963

Report on Substantial Amounts of Little-used Nontactical Construction Equipment being held on Okinawa by the Military Services

Our review disclosed that, according to standards established for the use of nontactical construction equipment being held on Okinawa by the military services, the eight nontactical military units on Okinawa had construction equipment valued at about \$725,000 that was excess to the services' needs on a consolidated basis. Despite these excesses the services were ordering additional items of identical types valued at \$387,000.

We brought our findings to the attention of the Department of Defense and suggested that a consolidated equipment pool be established and that orders for unneeded items be canceled. We suggested also that the Department study the feasibility of establishing similar pools in other areas in which the military services have units in close geographical proximity. The Department of Defense commented that it was in general agreement with the view that pooling of such equipment was desirable and that it would review other areas where a potential increase in interservice utilization of equipment under a pooling arrangement is indicated. However, the Department considered the situation on Okinawa to be unique for climatic and other reasons and therefore the Department deemed it necessary to make a detailed study of its needs for construction equipment on Okinawa before taking further action.

We inquired into the study being conducted and found that in general it seemed to be sound. However, we found that no provision had been made in the study for determining the savings in operating and maintenance costs that would in all likelihood result from the establishment of a consolidated pool. We recommended that the scope of the Department's study be broadened to include appropriate consideration of this matter. Also, we asked the Secretary of Defense to advise us of the outcome of this study.

Although it would have seemed prudent to withhold shipment of additional equipment to Okinawa pending completion of the Department's study, we learned that equipment valued at \$283,000, or 73 percent of that on order at the completion of our review, had since been shipped to Okinawa. Moreover, we learned that subsequent to our review the military units on Okinawa had ordered even more equipment of the identical types and had been shipped additional equipment valued at \$238,000. Furthermore, these installations had outstanding orders for additional quantities of these same types of equipment valued at \$643,000. We recommended that consideration be given to withholding further shipments to Okinawa pending completion of the Department's study.

Index No. 29

B-146797, June 18, 1963

Excess Costs of Milk Purchased by the Naval Supply Center, Norfolk, Virginia for the Guantanamo Naval Station, Guantanamo Bay Cuba

The Naval Supply Center, Norfolk, Virginia, has been purchasing milk in half-pint containers for general messes serviced by the Guantanamo Naval Station. Simultaneously, it has been purchasing milk in bulk lots for use at other naval activities at prices considerably below the price being paid for milk packaged in the half-pint containers. Our review disclosed that if the Naval Supply Center could purchase milk for the Guantanamo Naval Station in bulk lots, instead of in the more expensive half-pint containers, the Government, after an initial expenditure of about \$4,800 for milk dispensers, would realize annual savings of as much as \$130,000.

The Navy advised us that it recognized the potential savings that could be realized through the procurement of milk in 6-gallon disposable containers instead of half-pint containers. The Navy advised, however, that, in order to purchase milk in 6-gallon disposable containers in the continental United States for consumption at overseas shore areas, it must obtain a container suitable to withstand the rigors of ocean shipment and develop a successful method of thawing frozen milk in 6-gallon containers without spoilage. The Navy informed us on April 18, 1963, that it was taking steps to resolve these two matters and was also installing bulk milk dispensing equipment on a trial basis at the Naval Station, Roosevelt Roads, Puerto Rico. The Navy advised that, if the use of bulk milk dispensing equipment at Roosevelt Roads, Puerto Rico, produced favorable results, action would be taken to install bulk milk dispensing equipment in the general messes at Guantanamo Bay and at all other overseas areas.

We asked the Secretary of the Navy to advise us of the results of its trial installation of bulk milk dispensers at Roosevelt Roads, Puerto Rico, and of the decision reached on the use of bulk milk in general messes serviced by Guantanamo Bay and at other overseas areas.

Index No. 30

B-146794, June 21, 1963

Unnecessary Costs Incurred by the Department of the Navy in the Procurement of RPM Comparators

Our review disclosed that the Government had incurred unnecessary costs of about \$108,000 because the Bureau of Naval Weapons did not act promptly in canceling production of RPM comparators, a component of the HSS-2 helicopter. These comparators were not essential for operation of the helicopter and, according to the record, elimination of the comparator was intended as a means of reducing procurement costs and resolving technical problems involving the comparator. The helicopter manufacturer submitted a proposed plan for eliminating the comparator, but the Bureau did not authorize the manufacturer to proceed with the production of the modification kit needed to replace the comparator until more than 6 months later. Available information indicates that such authorization could have been supplied in 2 to 3 weeks. Had the Navy acted promptly, it could have stopped the production of 40 comparators and could have prevented the expenditure of about \$108,000 of Government funds.

The Navy informed us that it recognized the necessity for taking prompt action on proposals for changes in specifications submitted by manufacturers. The Navy informed us also that our findings in this case have been called to the attention of all individuals in the Navy who are involved in the process of making decisions on such change proposals and in notifying contractors of the decisions reached by the Navy. We also learned that, subsequent to our review, the Navy undertook a study to improve its procedures for processing change proposals. We requested that the Secretary of the Navy furnish us with the results of the Bureau of Naval Weapons' study when the results become available. At a future date we plan to inquire into the effectiveness of whatever corrective measures are taken by the Bureau.

Index No. 35

B-133149, June 28, 1963

Unnecessary Expenditures of More Than \$1 Million for Storage of Petroleum in a Commercial Facility at Plattsburgh, New York, Department of Defense

Our review disclosed that a requirement of the Department of the Air Force, the using agency, resulted in negotiation of a contract by the Defense Petroleum Supply Center (formerly the Military Petroleum Supply Agency), the contracting agency, for petroleum storage in the Plattsburgh, New York, area at prices in excess of the amounts that were initially offered to the Government by the contractor for this service. For the 4 years from September 1959 to September 1963, the increased prices total \$1,111,000. If the Government exercises its option to renew the contract annually through September 1970, these increased prices will be reduced by \$210,000 to a total of \$901,000.

The increased contract prices represent the difference between higher prices negotiated by the Defense Petroleum Supply Center to satisfy the Air Force requirement that total construction costs be included in the first year of the contract and the lower prices initially offered by the contractor on a basis that spread the construction cost over several years. We found no indication that the Defense Petroleum Supply Center had recognized or informed the Air Force that compliance with its pricing requirement would substantially increase expenditures by the Government. We believe it is evident that the Air Force requirement that the Defense Petroleum Supply Center negotiate a contract for petroleum storage at a price for the first year include the total cost of the facility was based on the Air Force desire to make full use of expiring fiscal year 1958 obligation authority as established by Headquarters, United States Air Force.

The Deputy Assistant Secretary of Defense (Procurement) by letter dated March 21, 1963, commenting on our finding, principally directed his attention to funding uncertainties for 5-year contracts existing at the time of negotiation of the contract. It is our view that this should not have prevented the contracting officer from accepting the initial proposal of the contractor, which offered the Government a firm 1-year contract without recovery by the contractor of total construction costs during the first year.

We recommended that the Secretary of Defense establish procedures requiring the Defense Petroleum Supply Center to critically review and report to the Secretary of Defense instances where agency requirements may result in increased prices. Further, we recommended that the Secretary of the Air Force caution agency officials not to establish requirements motivated by the availability of fiscal year obligation authority without considering that such requirements may result in increased costs to the Government.

Index No. 38

B-118755, June 28, 1963

Overprocurement of Transponders for the NIKE-HERCULES Guided Missile System by the Department of the Army

The Army had incurred an estimated \$1.4 million of unnecessary costs in the production of NIKE-HERCULES missiles through its failure to recognize the availability of excess missile components and to provide these to the missile contractor for use in production. These excess components were transponders which had been procured for use as spares but were no longer needed for this purpose. The Army failed to provide these excess components for use in missile production because, in its supply management of spare transponders, the Army had not given proper recognition to the fact that the need for many of the spares was only temporary.

After we brought this matter to the Army's attention, the Army advised us that 171 spare transponders had been recovered or were now planned for recovery from the supply system and that further review would be made to determine the feasibility of recovery of additional spare transponders. Our subsequent review revealed that, as of February 1963, the Army had diverted or had taken action to divert 124 of the above spare transponders to missile production resulting in an estimated recovery of \$1.3 million of the unnecessary production costs.

In commenting on our findings, the Army stated (1) that it did not and does not now consider the need for spare transponders to be temporary in nature, (2) that considerable management analysis and judgment were incorporated in the procurement of the spare transponders, and (3) that the Army's supply actions in connection with these transponders were generally sound. We believe, however, that the Army's actions subsequent to our review confirm that the need for many of the spare transponders was in fact temporary. Further, we believe that the Army did not promptly recover these items after their need had ceased because the requirements records supporting the procurement and the subsequent supply management reviews did not clearly indicate (1) the temporary nature of the need and (2) the possibility of recovery through use in production. We, therefore, recommended to the Secretary of the Army that, in cases involving the procurement and supply management of spare parts to satisfy needs that are temporary, the requirements determinations for such parts specifically identify the unusual aspects of the need and, where possible, include provisions for prompt recovery of such items after the particular need has ceased in order to fill other requirements.

Index No. 40

B-145331, June 28, 1963

Report on Illegal Transactions under the Army Stock Fund

Stock funds are used by the Department of Defense to procure certain parts and other material. Military activities are allotted moneys, known as consumer funds, to purchase these items from the stock funds.

As part of our review of certain aspects of stock fund-consumer fund operations, we reviewed the manner in which the Army, Navy, and Marine Corps used their consumer funds to purchase materiel from the stock fund and reported to the Congress on uneconomical or illegal practices identified during the review (B-145331, June 13, 1963). Among the illegal transactions were (1) the obligation of \$232,123 of consumer funds at Fort Lewis after the authority to obligate these funds had expired and (2) the increase of \$662,484 in available consumer funds at Benicia Arsenal through stock fund credits that were given to the improper appropriation. On August 10, 1962, the Assistant Secretary of Defense (Comptroller) advised us that the Department of Defense did not agree that the above two transactions were illegal.

We have reviewed the comments of the Assistant Secretary and are still of the opinion that the transactions were illegal. We pointed out the basis for our decision and advised the Secretary of the Army that the illegal transaction at Fort Lewis is required to be reported to the President of the United States and the Congress in accordance with 31 U.S.C. 665(i) (2). Further, we recommended that the Secretary of Defense (1) bring to the attention of the military departments the fact that consumer funds cannot be obligated for stock fund parts until the user organization submits requisitions or orders and (2) clarify Department of Defense directives regarding the crediting of the proper appropriations for parts recovered from the disassembly of an end item and turned into the stock fund inventory.

Index No. 41

B-146727, June 28, 1963

Report on Overprocurement of Magnetos and Distributors for Reciprocating Aircraft Engines by the Department of the Navy

During the 7-year period ended December 31, 1962, the Navy purchased more magnetos and distributors for reciprocating aircraft engines than were needed to meet its needs during that period. The overprocurement of these magnetos and distributors resulted from the Navy's practice of leaving these items attached to uninstalled engines. Had the magnetos and distributors been removed from uninstalled engines, except those needed for quick-change purposes, purchases of magnetos and distributors totaling \$761,000 would not have been needed. At December 31, 1962, about \$386,000 worth of these magnetos and distributors

could have been used to fill estimated future needs if they had been removed from uninstalled engines on hand at that date. There was no such need for the remaining \$375,000 worth of magnetos and distributors that had been overprocured during the 7-year period.

The Navy has agreed that magnetos and distributors on spare engines could be removed and used. Accordingly, the Navy has started putting a program into effect to provide for removal and use of magnetos and distributors on uninstalled engines.

In view of the action being taken by the Navy, we made no recommendations for further corrective measures. We plan to inquire into the effectiveness of the Navy's program at an appropriate time in the future.

Index No. 47
B-146807, July 31, 1963

Report on Unnecessary Planned Procurement of 36,000-BTU Air Conditioners by the Department of the Army

In fiscal year 1963, the Engineer Supply Control Office, St. Louis, Missouri, initiated action to procure 200 unnecessary 36,000-BTU air conditioners valued at about \$300,000, to replace air conditioners expected to wear out during fiscal years 1963 through 1966. The Engineer Supply Control Office overstated replacement requirements by using an estimated replacement rate which was significantly higher than the replacement rate actually being experienced. In addition, the Army Missile Command failed to advise the Engineer Supply Control Office of its reduced needs for the 36,000-BTU air conditioners resulting from a planned reorganization of missile units.

To preclude the unnecessary procurement, we brought our findings to the attention of officials of the Engineer Supply Control Office and suggested investigation of the potential reduction in requirements due to the reorganization of missile units. In addition, we suggested that the Supply Control Office emphasize to its item managers the need to consider actual replacement experience when forecasting requirements and, in the future, investigate prospective changes in using organizations which might have a material effect on requirements for items for which the office is responsible.

The Department of the Army, in a letter of May 28, 1963, commented on our findings and proposals and stated that (1) the Department agrees with our findings and believes that our report will have a constructive effect in avoiding a repetition of the reported conditions, (2) a reevaluation of the requirements computation was made and it resulted in the cancellation, without cost to the Government, of the procurement request for the 200 air conditioners, and (3) the Army Materiel Command is developing revised regulations for publication about September 1, 1963, for the purpose of strengthening procedures for interchange of information between commands.

Index No. 49
B-146725, July 31, 1963

Report on Overprocurement by the Department of the Navy of Spare Guidance Components for the Shipboard Repair of Improved Tartar Missiles

Our review disclosed that the Navy procured about \$1 million worth of spare guidance components in excess of the quantities needed, based on usage experience, for maintenance of IMPROVED TARTAR missiles on board vessels. The excess quantities were procured in order to comply with a Bureau of Naval Weapons maintenance policy which required that spare complete guidance sections, in addition to spare guidance components, be stocked aboard vessels carrying IMPROVED TARTAR missiles. Although this policy resulted in the procurement of about \$1 million worth of components, we were unable to obtain any information from the Navy records as to who was responsible for initiating the policy or directing that it be implemented. In fact, we were unable to obtain official documentation justifying or supporting the initial establishment of the policy. We found that the procurement of components for use in assembling spare complete guidance sections was unnecessary, as the regular allowance of spare components, as computed on the basis of usage experience, was sufficient to accomplish maintenance of IMPROVED TARTAR missiles on board vessels.

The Under Secretary of the Navy agreed with our finding that shipboard maintenance requirements for the IMPROVED TARTAR missiles can be met by allowances for spare components which are based on usage without procurement of components for additional complete guidance sections. He also advised that

the shipboard allowances for spare components for these missiles have been revised to conform to usage rates. However, the Under Secretary stated that limited fleet experience with the IMPROVED TARTAR missile indicated that usage rates for certain spare components were higher than those anticipated at the time of our review. As a result, he advised that the Navy was taking action to terminate contracts and to divert to current production of missiles excess components worth only about \$226,000.

Since the Under Secretary indicated that, based on the latest usage rates, the excess spare components amounted to \$226,000 instead of \$1 million, we reviewed the reasonableness of these rates. Our examination and tests of the computations which allegedly supported the higher rates showed that they were not based on fleet usage and that the higher rates were overstated. In fact, we found that the usage was about the same as that used in our earlier computations which disclosed that about \$1 million worth of components in excess of needs had been procured.

Therefore, we recommended that the Secretary of Defense direct the Secretary of the Navy to take prompt action to (1) reevaluate the Navy's needs on the basis of actual fleet usage experience for the remainder of the \$1 million worth of components which we computed as excess, (2) terminate the undelivered quantities of excess components where feasible, and (3) transfer the excess components already delivered for use in the fabrication of current production missiles.

This case illustrates wasteful practices on the part of agency officials resulting in unnecessary costs to the Government. It illustrates also the need for a better record of the bases for important decisions and identification of those directly responsible for those decisions. Therefore, we requested that the Secretary of Defense, in this instance, ascertain the individuals directly responsible for this unnecessary expenditure of funds and recommend that the manner in which those officials discharged their responsibilities be appropriately considered when making personnel evaluations and management assignments.

Index No. 50

B-133149, July 31, 1963

Report on Unnecessary Annual Expenditures by the Departments of the Air Force and the Navy for Leasing Commercial Facilities to Store Petroleum Products in the San Francisco, California, area instead of using Excess Government-owned Petroleum Facilities at the Navy Fuel Department, Point Molate, Richmond, California

Our review disclosed that, although an average of at least 450,000 barrels of tank capacity in Navy-owned petroleum storage facilities at the Navy Fuel Department, Point Molate, Richmond, California, have been excess to the Navy's needs for Navy Special Fuel Oil since December 1960, nearby commercial facilities with a storage capacity of 432,700 barrels were being leased by the Defense Petroleum Supply Center for the Air Force and the Navy to store aviation fuels, at a minimum annual price of \$305,500. If the unused Navy facilities at Point Molate are converted for storage of aviation fuels at an estimated cost of \$348,280 and all the commercial leases are discontinued, the elimination of leasing costs could offset the cost of conversion in about 14 months. Thereafter, savings to the Government would amount to at least \$305,500 a year.

On March 23, 1963, the Deputy Assistant Secretary of Defense (Supply and Services) advised us that the Navy would convert and utilize a portion of the excess storage at Point Molate and, effective June 30, 1963, would discontinue a commercial lease of \$120,800 annually. Subsequently, we were advised that the Air Force had decided to terminate leases amounting to \$121,100 annually for part of its commercial facilities and to make further use of the unused Government-owned storage capacity at Point Molate. The action being taken by the Navy and the Air Force will result in a savings of lease costs of \$241,900 a year.

However, commercial leases of petroleum storage facilities which the Air Force plans to retain for improving support of bases in the San Francisco area will cost \$63,600 annually, although excess Government-owned storage facilities are available within a distance which appears to be acceptable for support of the bases. Also, the Air Force plans to spend \$106,000 for constructing facilities at Point Molate for transportation of fuel by truck, although facilities are available for more economical transportation of the fuel by water and pipeline. We recommended that the Secretaries of Defense and the Air Force look into these Air Force plans and determine whether existing Government-owned facilities will adequately meet storage and transportation needs before the Air Force is permitted to incur these expenditures.

The Deputy Assistant Secretary of Defense (Supply and Services) concurred with our proposal that the Department of Defense make a review of the use of Government-owned petroleum storage facilities. We recommended that in this review consideration be given to the effectiveness of management controls to insure that Government-owned petroleum facilities are used when such facilities will provide adequate and economical support of military bases.

Index No. 65

B-146794, September 30, 1963

Report on the unnecessary procurement of helicopter components by the Department of the Navy.

Our review disclosed that the Government had incurred unnecessary costs of about \$757,700 because of the Navy's failure to obtain rotor assemblies which were available from the Army and which subsequently became excess to the Army's needs. In addition, the Navy unnecessarily contracted for gear boxes because it failed to furnish adequate information to identify usable gear boxes available from the Army. As a result of our review, the Navy canceled its contract and obtained the gear boxes from the Army. Considering the costs of reworking the Army gear boxes, the Navy realized a net savings of about \$137,700.

In our report to the Congress entitled "Review of Interservice Utilization of Aeronautical Equipment and Supplies Within the Department of Defense," dated September 15, 1961 (B-133313), we recommended that consideration be given to merging the many common supply activities presently carried on in the individual military departments into a single organization within the Department of Defense. We were advised on June 21, 1961, that a study was then under way to consider the feasibility of such an organization, and on October 13, 1961, we were informed that, as a result of this study, the Defense Supply Agency was formed. However, the responsibility of this organization does not include the management of aeronautical equipment and supplies.

The present interservicing procedures are subject to considerable potential error, as has been revealed in this and our previous reviews. It is apparent that many of these errors could be avoided if the management of common aeronautical equipment and supplies were the responsibility of a single organization such as the Defense Supply Agency. We understand that a plan for such an assignment of responsibility is presently under study.

Index No. 66

B-146816, September 30, 1963

Report on overstatement of needs and illegal use of commercial-type vehicles by the Kanto Base Command, Japan, 6100th Support Wing, United States Air Force.

The Kanto Base Command, Japan, 6100th Support Wing, United States Air Force had overstated its requirements for pickup trucks and, as a result, had about 100 more pickup trucks on hand than it needed. On the basis of acquisition cost plus the cost of transporting them to Japan, these trucks cost the Government about \$193,000. Further, controls over the use of military taxis were lax and these vehicles were being used for unofficial purposes. For example, the taxis were used for such purposes as "pick up dog," "party," and trips to the officers' club. In some cases the Government was reimbursed for the unofficial use of the taxis, but in many cases of what appeared to be unofficial usage no reimbursement was made.

After we brought our findings to the attention of agency officials, a review of vehicle requirements at the Kanto Base Command was made and 117 unneeded vehicles were returned to supply, which will make them available for use at other military installations in the Far East. Also, tighter controls were established to eliminate usage of vehicles for unofficial purposes and other vehicle misuse. In addition, we were advised that the Air Force had adopted a new system of evaluating vehicle requirements which provided for more intensive consideration of vehicle needs by higher echelons. To increase the effectiveness of the Air Force's new system, we recommended that periodic tests of the accuracy of the data used in justifying needs be made by internal audit or review staffs.

We recommend also that the Air Force inquire into the unofficial use of Government-owned vehicles at the Kanto Base Command prior to the issuance of its recent instructions prohibiting such use and that to the extent practicable it make appropriate recoveries from the personnel involved in those cases in which reimbursement has not already been received.

Also, at the time we brought our findings to the attention of the Department of Defense, we suggested that the Department inquire into vehicle utilization at other installations in the western Pacific area to determine whether vehicle stocks were commensurate with needs. The Department did not concur in our suggestion, explaining that it believed the controls over vehicle stocks were adequate and that such action was not necessary. We plan to make further inquiry into vehicle needs at other military bases in the Pacific area to determine whether the Department's controls over vehicle stocks are effective.

Index No. 67

B-146807, October 15, 1963

Unnecessary Procurement of Specially Designed 60,000-BTU Air Conditioners, Department of the Army

The Corps of Engineers procured 557 unneeded 60,000-BTU air conditioners, costing \$2.1 million, for the United States Air Defense School, Fort Bliss, Texas. The 557 air conditioners, which are now in storage, are excess to foreseeable Army requirements. We found that the requirements of other users were overstated and that additional air conditioners were either procured or ordered for which there was little or no use. As a result of a reappraisal of its needs, the Army canceled outstanding contracts totaling \$1.2 million for 303 additional air conditioners, with termination costs amounting to about \$150,000.

The unnecessary costs for the air conditioners resulted from failure of the Department of the Army to determine the actual needs of potential users prior to authorizing volume procurement. An adequate investigation, including appropriate tests of the equipment to determine whether it was suitable and needed for its intended use, would have disclosed that the air conditioners were not needed by the school and by certain other organizations.

The Department of the Army in June 1963 informed us that recent revisions to Army regulations are intended to preclude volume procurement prior to adequate testing and that this report would be brought to the attention of Army personnel responsible for introduction of new items of equipment. In connection with our proposal that appropriate disciplinary action be taken against the individuals responsible for failure to properly determine user needs prior to procurement, the Army stated that a complete investigation would be conducted and that we would be advised of the results and actions taken.

Index No. 68

B-146814, October 15, 1963

Unnecessary Procurement and Repair Costs by the Department of the Army for J-2 Gyro Magnetic Compass Components Available in the Military Supply Systems, Department of Defense

Our review disclosed that the Government has incurred unnecessary procurement costs of about \$348,000 and estimated repair costs of \$105,000 because the United States Army Electronics Command procured or repaired J-2 compass components, although sufficient stock was available in the military supply systems. In addition, the Army was planning further procurements of J-2 compasses valued at \$920,000, although the stocks to be procured were available within the Department of Defense. After we called this matter to the Army's attention, all the planned procurements were canceled. The unnecessary costs are attributable to (1) the Air Forces's policy of not offering to other services excess stocks at the using unit level because such stocks are not under the control of its inventory managers, (2) the Army's failure to recognize that the Air Force had components the Army needed, because of the assignment of different identification number, (3) the Army's failure to delete certain components from a pending procurement after the Air Force offered sufficient quantities in time to meet the Army's urgent needs, and (4) the Army's inadequate knowledge of its own needs and assets.

The Assistant Secretary of Defense (Installations and Logistics) agreed that in the instance cited in our report, there was a lack of interservice coordination between the Army and Air Force and that the Army's management of its inventories was inadequate. However, he did not agree that the Army had actual and planned procurements for this item in excess of its needs. He stated that the Army had an urgent need for serviceable stock and that subsequently, even after giving consideration to the reparable assets transferred from the Air Force, the Army still needed additional quantities. Our review disclosed that the Air Force could have met not only the urgent Army needs but also the re-

maintaining needs of the Army. However, in its reply the Department of Defense did not consider assets available in the Air Force supply system even though we had brought this matter to its attention.

We recognize that the Department of Defense has taken action to strengthen the interservice supply support program. However, our past reviews in this area, and this review, have demonstrated that the services are not effectively coordinating their efforts and implementing this program to the fullest extent practicable. We therefore recommended that the Secretary of Defense require all the military services to consider their worldwide assets as potentially available for transfer to other services. We further recommended that the Secretary of Defense require the internal audit staffs of the cognizant services and of the Defense Supply Agency, in their reviews of the interservice supply support program, to examine closely any instances in which interservice coordination has been hindered and to fully identify the causes so that appropriate action can be taken to correct procedures and/or disciplinary action can be taken with respect to the individuals responsible for the improper supply actions.

Index No. 72

B-133177, October 28, 1963

Unnecessary Costs Incurred Because of Failure to Standardize Tropical Wool Trousers, Department of the Army and Marine Corps.

Our review disclosed that the Government was incurring additional costs of about \$68,000 annually because the Army and the Marine Corps had not agreed to utilize the same design for tropical wool trousers. We found that the Defense Clothing and Textile Supply Center did not resolve whether flaps should or should not be on the hip pockets of the trousers. Consequently, the Center continued to procure and supply two types of trousers, thereby continuing to incur unnecessary supply management and procurement costs. Further, the Center did not refer this matter to the Defense Supply Agency for resolution so that maximum practical standardization and related economies could be achieved.

The Deputy Assistant Secretary of Defense (Supply and Services) has advised us that the Department of Defense concurs in our proposal that the Secretary of Defense require the Director, Defense Supply Agency, to assure himself that the Defense Clothing and Textile Supply Center is making prompt and forthright standardization decisions in cases where operationally critical factors are not involved and unnecessary costs are being incurred. In regard to our proposal to standardize tropical wool trousers, we were advised by the Deputy Assistant Secretary that the trousers are being standardized with hip pocket flaps, thereby resulting in supply management savings of about \$68,000 annually.

Index No. 74

B-146827, October 29, 1963

Unnecessary Annual Expenditures by the Departments of the Army and Navy for Leasing Commercial Facilities to Store Government-Owned Empty 55-Gallon Steel Drums in the Los Angeles, California, Area, Department of Defense

Our review disclosed that the Army and the Navy are incurring unnecessary charges of about \$112,000 annually for storing Government-owned empty 55-gallon drums at two commercial facilities in the Los Angeles, California, area although sufficient space is available at the nearby Navy Fuel Depot, San Pedro, California, for the storage of these drums. This unnecessary cost represents the present storage of 211,000 empty drums at commercial drum-filling operations, at a monthly rental of 5 cents per drum (60 cents per year), less 25,000 drums at the same rate which the commercial companies can be required to fill with petroleum products in 1 day, if requested. There were no indications that the Navy had coordinated the availability of space for the storage of empty drums at the Navy Fuel Depot, San Pedro, California, with the Army or Defense Petroleum Supply Center.

On July 5, 1963, the Deputy Assistant Secretary of Defense (Supply and Services) advised us that the Navy would move all except 8,000 of its drums stored at the commercial facilities to storage at the Navy Fuel Depot. He advised us also that Army plans to reduce the drums in commercial storage by attrition and to utilize space available at the Torrance annex of the Long Beach Naval Shipyard for storage of about 70,000 empty drums. These actions, when completed, should result in annual savings in commercial storage costs of about \$72,300. The Deputy Assistant Secretary advised us further

that the Navy would retain the 8,000 empty drums in storage at the commercial drum-filling facilities to maintain necessary emergency capabilities and that the Army would maintain a 3-day stockage of empty drums at the commercial facilities in order to assure immediate reaction to contingency requirements and uninterrupted support.

In view of the proximity of available storage space at the Navy Fuel Depot and the Torrance annex to the commercial drum-filling locations (the Navy Fuel Depot is less than 5 miles away and the Torrance annex is less than 15 miles), we recommended that the Secretary of Defense further review the Army and Navy plans for continued storage of empty drums at the commercial facilities with the objective of obtaining maximum use of the available storage space at the Government-owned facilities in the area. We also recommended to the Secretary of Defense that, before any new contracts are made for commercial storage of empty drums which can be satisfactorily stored in open-air areas, adequate consideration be given to the availability of space at nearby Government facilities for storage needs.

Index No. 80

B-132989, November 29, 1963

Report on Overprocurement of Selected Accessories for Jet Aircraft Engines by the Military Services

During the 12-year period ended December 31, 1962, the Army, Navy, and Air Force bought \$9,400,000 worth of the selected accessories that would not have been needed if the services had removed accessories attached to uninstalled engines (except those needed for quick-change purposes) and had used the accessories so removed to meet needs for spare accessories. While the practice of leaving accessories attached to these uninstalled engines has already resulted in significant additional cost to the Government, even greater additional cost will be incurred if this practice is continued. In this respect, on the basis of the services' available predictions of future need, we estimated that procurements of selected accessories during the period January 1, 1963, to June 30, 1968, could be reduced by about \$42,000,000 if this practice were discontinued.

We found that since 1950 the Navy had been following a policy called the "nude engine" concept, under which most accessories were separated for uninstalled reciprocating aircraft engines, and it had found this concept to be feasible and economical. However, none of the three services had applied this concept to jet aircraft engines.

The Department of Defense has agreed that, in general, it is practical to separate jet engine accessories from uninstalled engines and has advised us that a project would be established to determine the extent to which this concept can be applied together with an assessment of the benefits or savings which can be expected. The Department has advised us that it expects to complete the study project in December 1963. We asked the Secretary of Defense to advise us of the outcome of the Department's study and of the corrective measures taken.

To assure that maximum savings are attained, we recommended that the Secretary of Defense direct the military services to promptly identify and terminate outstanding orders and contracts for accessories that will not be needed under the nude engine concept. Also, we believe that this case demonstrates the need for better communication of cost-saving techniques within and among the military services. Accordingly, we recommended that the Secretary of Defense establish procedures to assure that, whenever new management improvement techniques—such as the Navy's nude engine concept for reciprocating aircraft engines—are developed by one military service, such techniques can be evaluated as to their applicability to the same or similar items in all the military departments.

Index No. 82

B-146828, November 29, 1963

Report on Uneconomical Management of Commercially Available Items

Our review disclosed that inventory control points within the Department of Defense have not given appropriate consideration to commercial availability and the costs of central management and distribution when determining whether an item of supply will be procured directly by using activities or will be obtained through service supply channels. As a result, Department of De-

fense activities centrally manage hundreds of thousands of low-volume minor items of supply that are readily available to using activities from commercial sources. We estimate that direct procurement of such items by using activities would reduce supply management costs by about \$50 million a year and supply inventories by about \$275 million.

We brought our findings to the attention of the Secretary of Defense and proposed that, in order to eliminate the unwarranted investment in inventories and the unnecessary supply management expenditures, the Department of Defense initiate a program for review of the central supply systems at military activities under its control with the objective of eliminating from the supply systems all items which could be efficiently and economically procured directly from commercial sources by the using activities. We proposed also that the Secretaries of the military departments be instructed to conform the criteria under which the method of supply is determined to Department of Defense instructions by requiring that each determination shall give appropriate consideration to commercial availability and the economies that could be realized from local procurement.

The Department of Defense has agreed that the management of additional items within the supply system can be decentralized but stated that the number of such items and any resultant economies cannot be determined at this time. However, the Department promised that corrective action, substantially in agreement with the measures we proposed, would be initiated in order to eliminate from the central supply system the maximum number of items practicable.

We believe, however, that, because of the large volume of items and the various organizational elements involved, close and vigorous administration by officials of the Department of Defense and the military departments will be needed to bring about the desired results. We recommended to the Secretary of Defense that (1) the Department of Defense program to achieve the maximum practicable decentralization include review of the criteria within the military services and at inventory control points applicable to a determination of whether to centralize or decentralize management, (2) such criteria include consideration of commercial availability, of the necessity for mobilization reserves of commercial items of supply, and of the costs of supply through military depots and from commercial sources, and (3) sufficient management cost data be developed and disseminated at the item manager level to provide a basis for a decision as to the most economical method of supply under varying dollar volume and supply transaction conditions.

Index No. 83

B-146835, November 29, 1963

Report on Unnecessary Procurement of Office Furniture for Use in the Pentagon

Our review revealed that the Air Force procured wood unitized office furniture costing \$323,000 toward the end of fiscal year 1962 to replace significant quantities of furniture that was in good serviceable condition, without evidence that replacement was economically justified. Most of the new furniture was not requisitioned by using organizations until after the procurement had been initiated. After our inquiries into this procurement, issuance of new furniture was halted and a large quantity of new desks and desk attachments were transferred from Pentagon hallways to warehouse space at Bolling Air Force Base pending determination as to the best way to utilize this furniture. It appears that the availability of unobligated funds, rather than the existence of valid requirements, was the overriding consideration in the decision to procure the furniture.

The Air Force did not dispute our finding that the replaced furniture was generally in good serviceable condition, but nevertheless contended that there was no unnecessary procurement of office furniture. No evidence was furnished, however, in support of this contention other than abstract justifications as to improvements in utilization of office space and in employee morale and efficiency. The Air Force has advised us that it will reevaluate its criteria governing the use of unitized furniture and that it has taken interim steps to limit further procurement and to make full use of replaced, serviceable furniture.

The expenditure of funds for the replacement of office furniture in good serviceable condition was largely unjustified. Such waste and extravagance illustrates the need for a greater sense of individual responsibility for economy in Government operations and should be brought to the attention of the officials

directly responsible for the decisions to replace furniture that was in good serviceable condition.

We recommended that the Secretary of Defense issue instructions to formalize a policy limiting the procurement of new furniture and other office equipment to properly justified requirements and precluding the uneconomical replacement and disposal of good serviceable equipment.

Index No. 88

B-133177, December 19, 1963

Report on Unnecessary Costs Being Incurred As A Result of the Navy's Refusal to Accept the Standardized Officers' Dress Shoes Agreed Upon by the Army, Air Force, and Marine Corps

The Government is incurring unnecessary costs estimated at \$158,000 annually because the Navy refuses to discontinue using brown dress shoes and to use only the black dress shoe as used by the Army, Air Force, and Marine Corps. The Defense Supply Agency and the Defense Clothing and Textile Supply Center have not taken any effective action to require the Navy to eliminate its brown dress shoes, and, as a result, unnecessary inventory management and procurement costs are being incurred. The Assistant Secretary of Defense for Installations and Logistics in 1961 requested the Assistant Secretary of the Navy for Installations and Logistics to review the need for retaining brown dress shoes in view of the increasing need for economy. However, the Assistant Secretary of the Navy replied that the Navy desired to retain brown dress shoes and that "the only appropriate question to be raised by the Defense Clothing and Textile Supply Center is whether or not they should continue to provide supply support of the item in question." The Navy apparently did not recognize the Center's authority to require the standardization of clothing items. The Department of Defense took no further action to eliminate the brown dress shoes from the supply system until we brought this matter to the attention of the Secretary of Defense on June 10, 1963.

The Acting Assistant Secretary of Defense for Installations and Logistics advised us on August 15, 1963, that the Navy was being requested to against study and reexamine the need for brown dress shoes. He advised that our office would be informed of the findings upon completion of the Navy's evaluation and analysis. However, on the basis of past experience, if the Navy does agree to eliminate the brown dress shoes, it appears doubtful that the Defense Supply Agency will require the Navy to do so despite the authority of the Defense Supply Agency to require standardization.

We recommended that the Secretary of Defense assure himself that the Defense Supply Agency or its single manager for clothing and textile materiel is taking prompt and positive action to direct the standardization of such items of materiel, especially where such items are not operationally critical, even in those instances where one or more of the services refuses to accept the proposed standardized item. We recommended also that the Secretary of Defense prohibit the military services from withdrawing supply support from the Defense Clothing and Textile Center unless such withdrawal can be justified as being in the best interest of the Government. Specifically, in connection with the matters contained in our report, we recommended that the Secretary of Defense direct the Navy to eliminate its brown dress shoes and to use only the black dress shoes common to the other services.

Index No. 98

B-146807, January 16, 1964

Report on Unnecessary Procurement Initiated for 9,000-BTU Air Conditioners

Our review disclosed that the Army initiated procurement amounting to \$161,500 for 214 air conditioners for which firm requirements did not exist. The Corps of Engineers, the activity responsible for this procurement, awarded a contract despite available information that immediate procurement was unnecessary. The Signal Corps, the requisitioning activity, failed to advise the Corps of Engineers in a timely manner that the units were not needed so that termination proceedings could be promptly initiated. Further, the Army did not take action to terminate the contract when it became known that the items were not needed until after we directed attention to this matter.

In June 1963 the Deputy Assistant Secretary of the Army (Installations and Logistics) advised us that the Department of the Army agreed that our findings and that a number of actions had been initiated to strengthen Army instructions

pertaining to coordination and communication on intercommand procurements. In July 1963 the contract was terminated for default at no cost to the Government with respect to 214 undelivered air conditioners because the contractor was unable to produce an acceptable preproduction unit. However, if the contractor's appeal of the termination action is successful, an indeterminable amount of unnecessary costs may yet be incurred by the Government. The effectiveness of corrective actions taken by the Army as a result of our proposals will be tested as part of our continuing review of Department of the Army activities. Further, we have requested the Secretary of the Army to advise us of the results of the termination action.

Index No. 100

B-146856, January 28, 1964

Report on Unnecessary Costs Relating to Reassignment of Management Responsibility for Tool Sets

Unnecessary procurement of \$261,000 worth of hand tools was in process or planned, and \$13,000 worth of needed tools were disposed of as a result of failure to transfer \$1.2 million worth of excess Army hand tools to the Defense General Supply Center. In addition, the cost of complete tool sets purchased by the Supply Center could have been reduced by about \$82,000 if the Center had furnished its contractors some of the tools needed which were available in excess stocks of the Army. These deficiencies were the result of inadequate coordination between the Engineer Supply Control Office, of the Department of the Army, and the Supply Center in the reassignment of management responsibilities for certain tool sets, including the failure of either to follow-up an initial offer of excess stocks by the Supply Control Office.

We advised both agencies that the Supply Center needed tools which were available in excess inventories of the Supply Control Office and as a result (1) the control of inventories valued at about \$1.2 million was transferred to the Supply Center from the Supply Control Office and (2) the Supply Center canceled orders for about \$86,000 worth of undelivered tools and reduced planned procurement for fiscal years 1963 and 1964 by about \$175,000.

We also suggested that the Department of Defense institute appropriate controls to assure prompt transfer of accountability for inventories involved in reassignments of supply management responsibilities and to emphasize the need for adequate interagency planning and coordination to effectively accomplish the transfers. We have been advised of additional guidance furnished and controls established by the Department of Defense which are designed to minimize the types of deficiencies cited in our report.

Index No. 105

B-146844, January 31, 1964

Report on Excessive Stocks At Selected Bases Of United States Fifth Air Force In Japan And Korea

At selected bases of the United States Fifth Air Force in Japan and Korea, Department of the Air Force, we found over \$4,300,000 worth of excess stock on hand or on order from United States depots. The excess stocks were accumulated primarily because of the failure to appropriately consider (1) prior usage, (2) the large number of items on hand in maintenance shops, and (3) available substitute or reparable items. The accumulation of excess stock at bases increases the Government's expenditure for inventories unnecessarily, and many times the stock becomes obsolete before it can be used. In addition, unnecessary costs are incurred for warehousing and accounting for the excess stock. The failure to identify and make excess stock available to other bases also results in unnecessary procurements.

As a result of our review, the Air Force canceled orders for excessive quantities valued at over \$473,000. We found that in calendar year 1963 supply depots in the United States were procuring additional quantities for projected Air Force requirements for five of the line items we identified as excess to the needs of Fifth Air Force bases. If these excess items are redistributed, procurement contracts could be reduced to effect a possible savings of over \$350,000.

The Department of the Air Force, in a letter dated March 5, 1963, commenting on our findings, stated that revised regulations and aggressive programs then under way should result in improved management within the Air Force and that all bases concerned had taken action to correct the specific defects mentioned

in our report. However, we performed a follow-up review at Yokota Air Base and found that the basic deficiencies noted in our original review still existed.

Sound regulations and procedures are essential to proper control and management. However, the findings in our report show that the existence of directives or procedures alone will not assure an effective operation. It has been our experience that aggressive surveillance action must also be taken to assure that the regulations and procedures are followed effectively.

We recommended that the Secretary of the Air Force initiate a review of the need for all major items of stock at Fifth Air Force bases, including the material identified as excesses in our review, so that excesses can be considered for redistribution as well as considered in future procurements. We recommended also that similar reviews be made at all other Air Force commands. We further recommended that the Secretary of the Air Force institute an adequate system of surveillance of base level supply activities to assure that Air Force procedures and programs result in efficient supply management.

Index No. 108

B-146848, February 7, 1964

Report on Unnecessary Costs Resulting from Government Production of M14 Rifle Repair Parts Rather than Procurement from Commercial Sources

Our review disclosed that the Government incurred unnecessary costs of about \$216,000 because the Army Weapons Command placed orders for certain repair parts for M14 rifles with Springfield Armory without first comparing the costs to be incurred by the Armory with the prices it was currently paying to commercial sources for the same parts. We proposed to the Secretary of the Army that, in instances where both Government arsenals and commercial suppliers are producing acceptable items, Army procurement officials be required to effect procedures to assure that procurements are placed with the source which best serves the interest of the Government.

As a result of our bringing this matter to the attention of the officials of the Army Weapons Command, instructions were issued which provided for the establishment of a "make or buy" committee which will make decisions whether to place repair parts orders with Government arsenals or with commercial sources on a line-item basis. The committee is to review all considerations, such as the mission responsibility of arsenals, cost, tooling, and urgency of delivery requirements, before arriving at its "make or buy" decisions.

The Acting Assistant Secretary of the Army (Installations and Logistics) advised us on September 12, 1963, that the establishment of the committee is fully consistent with our proposal. However, we were not informed that the same or similar procedures would be effected at other Army commands where both Government arsenals and commercial suppliers are producing acceptable items. We recommended, therefore, that the Secretary of the Army institute these procedures at other appropriate Army commands.

Index No. 112

B-146844, February 17, 1964

Report on the Uneconomical Replacement of Vehicles by the United States 5th Air Force, Fuchu Air Station, Japan

Our review disclosed that the Government had incurred substantial unnecessary costs between January 1, 1961 and June 30, 1962, because the 5th Air Force prematurely disposed of certain usable military (M series) vehicles. These vehicles, which had been used only about one half of their estimated useful life, would have been retained on the basis of criteria prescribed in Air Force regulations. However, Headquarters, Pacific Air Forces, issued improper instructions dated August 8, 1960, which disregarded actual usage and the remaining useful life of these vehicles in order to justify the disposition of M-series vehicles. During the course of our review, on September 10, 1962, Pacific Air Forces rescinded these instructions and directed that the applicable Air Force regulations which it had previously ignored be followed. As a result of the premature disposal of usable vehicles, commercial replacement vehicles had to be procured and shipped to 5th Air Force bases several years before this should have been necessary. This resulted in unnecessary costs to the Government. Although it is not practicable to determine the precise amount of unnecessary costs, the Air Force has established certain replacement criteria, and by using these criteria we have computed a value of approximately \$1 million for the remaining life of the vehicles.

The Department of the Air Force in commenting on our findings stated that, although some vehicles had been disposed of prematurely by Pacific Air Forces, our findings indicated that we had not given full consideration to the savings that would result from the commercial vehicle replacement program, which would reduce the amount of losses stated in the report. We did not make a review of the commercial vehicle replacement program throughout the Air Force and therefore could not evaluate the benefits of this program. However, any savings which resulted from the vehicle replacement program would not offset the significant loss from disposing of military-type vehicles which had considerable additional useful life. The savings attributable to the use of commercial vehicles do not negate the desirability of obtaining the maximum beneficial use of military-type vehicles already owned by the Government.

We proposed that the Secretary of the Air Force institute a thorough review of the disposal and replacement of military-type vehicle by other Air Force organizations, giving emphasis to possible premature disposals and replacements, and advise us of the results of this study. The Air Force advised us that action was being taken to instruct Air Force activities to review the remainder of the M-series vehicle records to insure that proper replacement coding had been accomplished in accordance with current Air Force directives and that we would be advised regarding the results of this study.

In view of the significant amount of funds expended for new vehicles prior to the time this was authorized by Air Force regulations, we recommended that the Secretary of the Air Force make an investigation of this matter and that consideration be given to taking appropriate disciplinary action. We also recommended that the Secretary of the Air Force establish procedures to minimize the possibility of subordinate commands' issuing instructions inconsistent with established Air Force policy.

Index No. 115

B-146725, February 18, 1964

Report on Overprocurement of Spare Fuze Component Used for Repair of Improved TARTAR and HOMING TERRIER Missiles

Our review disclosed that the Bureau of Naval Weapons unnecessarily purchased 199 units, valued at about \$353,000, of a fuze component used for repair of IMPROVED TARTAR AND HOMING TERRIER missiles. This unnecessary purchase was made because the Bureau based its requirements for the component on outdated engineering judgments instead of an actual usage experience. Because of a recent change in missile design, there is no known current or future need for these units.

We brought our findings to the attention of the Department of the Navy and advised the Navy that, since many of the components had not been delivered, it was likely that some of the unnecessary cost could be avoided by terminating the contract under which the components had been ordered. The Navy agreed but advised us that it had determined that the excess quantity of the fuze component was less than the excess quantity computed by us, and it was therefore taking action to terminate orders for only about \$117,000 worth of the undelivered units.

We received the Bureau's computations for reasonableness and found that the Bureau had made an invalid assumption in its revised computations and that its needs for the spare fuze component were still overstated. Accordingly, we suggested to Bureau officials that orders for additional quantities of the fuze component be terminated. In response to our suggestion, we were advised that no further cancellation action was contemplated. Therefore, we recommended that the Secretary of Defense direct the Navy to promptly reevaluate its needs for the spare fuze component and terminate orders for excess quantities to the extent that termination is economically feasible.

We believe that the primary cause of the overprocurement disclosed by our review is that the Bureau of Naval Weapons has not established inventory and management procedures for effectively managing and procuring spare parts and components. In this case the responsible Bureau official, in determining needs for the spare fuze component, did not take actual usage data into consideration. Furthermore, the management review procedures in the Bureau were not adequate for identifying this error. Had this determination of needs been made by the Navy Ordnance Supply Office which is organized specifically to compute needs for spare parts and secondary items, there seems little doubt that actual usage data would have received consideration. Accordingly, we also recommended that the Secretary of the Navy transfer responsibility for inventory management of the fuze component to the Navy Ordnance Supply Office.

Index No. 118

B-146807, February 19, 1964

Report on Unnecessary Procurement Initiated or Planned Because Equipment Requirements were Overstated by White Sands Missile Range, New Mexico

The White Sands Missile Range overstated its requirements for engineer equipment by about \$3.3 million. As a result, the Army awarded contracts in amounts totaling about \$338,000 for air conditioners which it did not need and planned future procurement of other unneeded equipment worth about \$3 million. The overstated requirements resulted from failure of the White Sands Missile Range to assure that only its actual equipment needs were submitted through channels to the Engineer Supply Control Office, St. Louis, Missouri, for use in determining total Army requirements and in planning procurement. After we discussed the overstatements with officials of both installations, the contracts for the air conditioners were canceled and plans to purchase other equipment were cut back about \$3 million.

The failure to establish accurate and realistic requirements for equipment which are in accordance with actual needs is a matter of great concern in view of the millions of dollars which have been wasted, and could continue to be wasted, in the procurement of unneeded equipment, as disclosed in our current report and previous reports. We have made numerous suggestions and recommendations for corrective action, most of which have been accepted and acted upon. However, one of our basic recommendations was not considered feasible by the Department of the Army. This was for the initiation of a periodic independent review of installation or unit equipment authorization lists as they relate to actual needs of the organizations. As a result of our current review, we suggested reconsideration of this recommendation and have now been advised by the Department of the Army that a full-time working committee has been established to study Army equipment authorization documents and their use in Army programming.

We believe that the above action, coupled with the one-time review of all equipment authorization documents which was initiated by the Army on June 24, 1963, should establish a good basis for correction of the basic deficiencies involved, particularly if the revised system developed by the committee provides, on a permanent basis, for an independent review to assure that the equipment authorization listings are kept in balance with actual needs.

We recommended to the Secretary of the Army that, at White Sands Missile Range and in the revised Army equipment authorization system now under development, provision be made for clear and definite assignment of individual management responsibility for future equipment authorization actions. This should provide the sense of personal responsibility necessary for sound management.

DEFENSE CONTRACTS

Index No. 5

B-146764, March 22, 1963

Report on Review of Retention by General Dynamics/Pomona (Convair), A Division of General Dynamics Corporation, Pomona, California of Refunds Related to Illegally Imposed Local Taxes Included in the Prices of Department of the Navy Contracts

Under four incentive-type contracts with the Navy, Convair paid local taxes in California on Government property and, after the tax had been judged invalid, Convair retained \$85,300 of the amount refunded by the taxing authority. The amount withheld by Convair is comprised of \$35,500 retained as incentive profit under one of the contracts and \$49,800 representing interest accrued on the refunds. The payment of the taxes was predominantly financed by and ultimately borne by the Government in contract prices. In our opinion, most of this amount is wrongfully withheld by Convair and should be recovered by the Government.

The purpose of incentive-type contracting is to provide the contractor with a positive incentive for effective cost control through a provision for sharing in the cost savings achieved in contract performance. At the time provision for these disputed taxes was included in the contract price, the contracting parties knew that the courts would have to resolve the matter and that the ultimate liability for the taxes, if any, was not within the contractor's control. It would have been readily apparent, therefore, that the costs involved were not appropriate for incentive contracting and might result in windfall profits to the con-

tractor. This was apparently recognized by some contracting officials since the tax was exempted from incentive provisions of other Convair contracts during the same period.

Despite the Navy's failure to specifically exempt the tax from incentive participation in this case, we believe that a legal basis for full recovery exists since the "taxes" clause in the contract specifically provides that the amount of any tax relief received by the contractor would be paid over to the Government. With respect to the interest received by Convair on the tax refunds, the courts have held under similar circumstances that interest accrues to the party—the Government in this instance—who furnished the money for the taxes.

We brought our findings to the attention of the Department of Defense and the Navy. The Department of Defense advised us that Convair had offered to pay over the interest to the extent that it was earned after Convair was reimbursed by the Government for the taxes. With regard to the portion of the tax refund retained by the contractor as incentive profit, the Department of Defense informed us that efforts would be made to recover the amounts retained by Convair on either legal or equitable grounds or both. We requested that the Secretary of Defense keep us currently informed of the status of the efforts to obtain recovery from the contractor.

We noted also that several million dollars of unrecovered local tax refunds and related interests is still in the hands of other California contractors. In this connection the Department of Defense advised us that the balance not yet collected is largely in dispute between it and the individual contractors and that legal action may be required in order to resolve the difficult legal and factual questions. The Department stated that efforts are continuing toward resolution and collection of all sums properly payable to the Government. We intend to monitor these efforts in conjunction with our review into other aspects of the California county tax refunds.

Index No. 6

B-146747, March 27, 1963

Report on Review of Overpricing of Spare Electronic Parts under Department of the Army Fixed-price Contracts DA-19-119-SC-651, -654, and -799 with Burroughs Corporation, Detroit, Michigan

The Government has incurred unnecessary costs of about \$556,000 under three Department of the Army negotiated fixed-price contracts because (1) Burroughs proposed prices that were higher than those justified by its most recently experienced cost data and (2) the United States Army Procurement Office (formerly United States Army Signal Procurement Office), Fort George G. Meade, Maryland, accepted Burroughs' proposed labor cost estimates without adequate review. On the most recent of the three contracts, the contractor certified to the Government that it had considered and made known to the contracting officer all available cost data in preparing its proposal. However, despite this certification, the contractor neither disclosed to the Government the existence of lower and more current labor cost data nor justified to the Government its failure to use these data in its estimates of labor costs. Furthermore, the Army Procurement Office failed to require the contractor to certify that it had considered and made known to the contracting officer all available cost data in pricing the spare parts under the two modifications to the last contract.

In commenting on our findings, the contractor stated that its proposed prices on these contracts were considered reasonable and proper. The Department of the Army, however, agreed with our findings and conclusions and, in accordance with our proposals, referred this case to the Department of Justice on November 23, 1962. The Department of Justice advised the Army on January 14, 1963, to negotiate with Burroughs for a suitable refund under the contracts and that Justice will not close the case until a settlement has been effected. We recommended that the Army, if it is unable to recover substantially all the overstated costs identified in our report, refer the case back to the Department of Justice for appropriate action to assure maximum recovery by the Government.

The Army has also advised us that the procuring office has been directed to review all elements of cost used by contractors in proposing prices to the Government to assure that proposed prices are based on the most current and correct cost information available. We recommended that the Army bring to the attention of its contracting officers the need to obtain pricing certifications from contractors in connection with the negotiation of not only the basic con-

tract but also modifications to the contract when the prices negotiated are based more on the contractor's actual or estimated cost than on effective competition.

Index No. 7

B-132974, March 29, 1963

Report on Review of the Overpricing of Spare Parts and Modification Kits purchased from Hazeltine Corporation, Little Neck, New York by Grumman Aircraft Engineering Corporation, under Department of the Navy Cost-plus-a-fixed-fee Contract NOas. 56-987c

Our review disclosed that Grumman Aircraft Engineering Corporation, buying for the Navy under a cost-plus-a-fixed-fee contract, awarded three purchase orders to Hazeltine Corporation under which Grumman purchased spare parts and modification kits for aircraft radar systems on a noncompetitive basis for more than \$3,050,000. The prices negotiated for these purchase orders were \$428,800 greater than needed to cover the costs Hazeltine could reasonably expect to incur and to provide Hazeltine with a profit at the rate of about 11.1 percent of cost that was included in its price proposals. Although the purchase order awards were under the surveillance of the Navy, we found no evidence to indicate that the Navy questioned the prices agreed upon by Grumman and Hazeltine. Consequently, the prices agreed upon by Grumman and Hazeltine were passed on to the Government under Grumman's cost-plus-a-fixed-fee contract with the Navy. Had the Navy or Grumman obtained Hazeltine's most recent experienced costs or vendors' quotations before the formal purchase orders were awarded, it would have been in a sound position to negotiate a reduction in the purchase order prices of about \$428,800.

We advised Hazeltine, Grumman, and the Navy that our review showed that in this case the Government had incurred unnecessary costs of \$428,800 and that Hazeltine had received an unwarranted benefit of that same amount. Accordingly, we suggested that appropriate recovery be sought from Hazeltine.

Hazeltine has advised us that it does not agree with our findings and does not regard it as appropriate that recovery be expected from Hazeltine. Grumman advised us that it was unaware that Hazeltine's prices included costs which were not likely to be incurred but it did not believe recovery from Hazeltine was feasible. The Navy, however, agreed with our suggestion and advised us that it was directing Grumman to recover the amount of any excess costs included in the pricing of its purchase orders with Hazeltine that could reasonably have been foreseen at the time the purchase orders were priced. The Navy stated also that it would provide such assistance as is requested by Grumman to achieve this end, that any adjustment thus obtained would be credited to the Navy's prime contract with Grumman, and that the General Accounting Office would be apprised of any such adjustment that is made. In addition, the Navy informed us that the Department of Defense has recognized the need for increased surveillance over prices of subcontracts and purchase orders and has initiated positive corrective measures and that our report will be brought to the attention of contracting officials to illustrate the need for more careful review of subcontract costs to be borne by the Government.

Index No. 10

B-146717, March 29, 1963

Report on Review of Overpricing of Target Seeking Systems for the Bomarc Missile Under Department of the Air Force Negotiated Contract AF 33 (600)—38098 with the Boeing Company, Seattle, Washington

The Government will incur unnecessary costs of \$404,500 in the form of unwarranted profits under the prime contract because (1) the subcontractor (Westinghouse Electric Corporation, Air Arm Division, Baltimore, Maryland) quoted a price to the prime contractor (The Boeing Company, Seattle, Washington) based on cost estimates that were higher than those justified by its most recent cost experience, (2) the prime contractor, without adequately reviewing this price, included it in its proposed initial estimate of the prime contract cost, and (3) the Air Force not only accepted the prime contractor's proposed price for the subcontracted items without adequate review, but also allowed target and incentive profits to be based on this price although the subcontract price was only tentative and was subject to redetermination.

In commenting on our findings, the Air Force stated that, at the time of negotiations of prime contract—38098 in March 1959, later and more reliable cost

data were available to the prime contractor which showed that actual costs being experienced under prior purchase orders were substantially lower than the amounts proposed by the subcontractor and that the prime contractor should have considered this in negotiations with the Air Force. Therefore, the Department intends to seek an appropriate adjustment for this contract. The prime contractor took the position that the price negotiated for prime contract—38098 was not overstated and that there is no justification for adjustment of the contract price in this particular procurement.

It is our opinion that, had the latest cost information available to the subcontractor been properly used by the subcontractor and been adequately considered by the prime contractor, a better basis would have been provided to negotiate a lower target price in the price contract and the unnecessary costs to the Government resulting from the overstated target price would have been avoided. Further, we believe that in those cases where the cost information used is not adequate to assure that the tentative subcontract prices are reasonably accurate, the prices of such subcontracts should be excluded from the target costs under the prime contracts.

Index No. 13

B-146780, April 17, 1963

Report on Review of The Disposition of Insurance Premium Refunds received under a New York State Disability Benefits Insurance Policy by Grumman Aircraft Engineering Corporation, Bethpage, New York

Our review disclosed that Grumman Aircraft Engineering Corporation, Bethpage, New York was retaining refunds on premiums on disability benefits insurance totaling about \$297,000 that it had received during the 10-year period ended June 30, 1961. These refunds were being retained as a liability to employees, although the refunds should have been used to reduce the costs on Government and other contracts.

After we brought our findings to Grumman's attention, Grumman credited its overhead account with the \$297,000 of refunds it had been retaining. In addition, Grumman advised us that future refunds of this nature would also be credited to overhead. The Navy has advised us that the cognizant Navy audit personnel have been instructed to see that the Government has received proper credit for these refunds and that future refunds also are properly handled. We are recommending that this case be brought to the attention of Navy audit staffs to emphasize the need for review of refunds and credits against costs borne by the Government to assure that the Government receives its proper share of such reductions in costs.

Index No. 16

B-133325, April 24, 1963

Report on Examination of Rentals charged for Equipment owned and operated by Morrison-Knudsen Company, Inc., Boise, Idaho, a Subcontractor under Department of the Air Force Prime Contract, AF 33(600)-29717 with Western Electric Company, Incorporated, New York, N.Y., in Construction of the White Alice Communication System in Alaska

At least \$2.6 million was added to the Government's costs of White Alice stations because Morrison-Knudsen Company, Inc., Boise, Idaho, negotiated excessive rental rates for the equipment it would furnish and operate under cost-plus-a-fixed-fee subcontract WP-60035 from Western Electric Company, Incorporated, New York, N.Y., and because Western Electric did not exercise its contractual right to negotiate a reduction in those rates even when it became apparent that their continued use would provide Morrison-Knudsen with rental revenues far in excess of the intent of the parties and with a substantial profit over and above the fixed fee it had agreed to accept as complete compensation for its work and services.

The Department of the Air Force has advised us that it is considering action to obtain from Morrison-Knudsen a refund of the excessive costs borne by the Government in construction of White Alice stations. Because Western Electric did not appropriately protect the Government's interests in negotiations with Morrison-Knudsen, we recommended to the Secretary of the Air Force that he also institute such action against Western Electric as may be appropriate and necessary to recover the excessive equipment rental costs borne by the Government.

Index No. 17

B-125096, April 30, 1963

Report on Payment of Insufficient Rental by Curtiss-Wright Corporation, Wright Aeronautical Division, Wood-Ridge, New Jersey for Commercial Use of Government-owned Facilities furnished by the Department of the Air Force

Our review disclosed that, because of an unreasonable decision by the Armed Services Board of Contract Appeals, the rental paid the Air Force by Curtiss-Wright Corporation, Wright Aeronautical Division, Wood-Ridge, New Jersey, for 9 years' commercial use of Government facilities was understated by about \$2.6 million. In addition, during negotiations with the Air Force, Curtiss-Wright omitted a substantial amount of Government facilities from rental charge and thereby understated its rental payment to the Government by an additional \$297,000.

The Air Force contract provided that Curtiss-Wright could use Government facilities on other than Government work provided the company was not thereby placed in a favored competitive position. The contract further provided that Curtiss-Wright would pay rent based on the extent to which the Government facilities were used in commercial work, and the contract specified the yearly rental rates to be charged for such use. However, for several years Curtiss-Wright did not pay any rental, nor did it submit periodic reports on its commercial use of Government facilities totaling about \$42 million, even though such reports were requested by the Air Force and required by the contract terms. This rent-free use of Government facilities was reported to the Congress in our report of November 1957 (B-125096).

In view of Curtiss-Wright's continued failure to comply with the contract provisions, the Air Force made a unilateral determination of the rental due based on the limited information available and demanded payment. Curtiss-Wright subsequently appealed this determination to the Armed Services Board of Contract Appeals, a quasi-judicial body acting for the Secretaries of the military services in matters of contract disputes.

The ruling handed down by the Board of Contract Appeals allowed Curtiss-Wright to compute rental due the Government on the basis that the full annual charge specified by contract terms would be due only if continuous use were made of all the Government machines 24 hours a day, every day of the year. According to experts in the field, as well as Curtiss-Wright's own production planning records and major management decisions, such extreme use of machines is neither expected nor possible. For instance, in computing the maximum usable time of these machines throughout the rental period, Curtiss-Wright consistently excluded (1) periods when the machines were not usable because of the need for repair and normal maintenance, (2) periods when the machines were not usable because the plant was closed down for Sundays and official holidays, and (3) periods when most of the machines were not usable because a Curtiss-Wright's method of manufacture precluded their use.

Since continuous use of the machines was not possible on any production, either commercial or Government, the specified contract rental could never be reached by the rental arrangement approved by the Board. Furthermore, the record before the Board contained no evidence that the annual contract rental could be applied, or was intended to be applied, to machine use 24 hours a day, every day of the year, and such interpretation is completely contrary to custom in rental arrangements made for many years with other defense contractors under similar facility agreements. At its crucial point, therefore, the Board's decision was not supported by substantial evidence.

Had Curtiss-Wright's rental payment been computed on the basis of the maximum practicable working time of the facilities, as determined by the company's own production planning records or by industry practice, the rental would have been more nearly comparable to the normal cost of facilities use and more responsive to the contract provision that Curtiss-Wright not be placed in a favored competitive position.

We proposed that the contracting parties negotiate a more equitable rental arrangement under this contract including an appropriate adjustment for the Government facilities omitted from rental charge. The contracting parties, however, have refused to take such action. With regard to instituting legal action, the Air Force considers the decision of the Armed Services Board of Contract Appeals as final and, in addition, points to a settlement agreement executed by the contracting parties which released the contractor from all further

claims by the Government. In our opinion, the actions taken in this case have unnecessarily caused the Government to suffer a loss of about \$2.9 million.

While defensewide procurement regulations have been revised to preclude a repetition of this type of error, and Curtiss-Wright is now paying substantially higher rentals in accordance therewith, we believe it is clear that the Government requires protection against unreasonable decisions of the kind here involved. As matters stand today, contractors can appeal to the Federal courts, and frequently have so appealed, board decisions adverse to themselves, whereas there is no practical likelihood that similar appeals on behalf of the Government would be taken to the courts by the executive agencies, since the boards are acting for the heads of their agencies. Under the Wunderlich Act (41 U.S.C. 321), decisions by contracting officers or contract appeals boards are final unless fraudulent or capricious or arbitrary or so grossly erroneous as necessarily to imply bad faith, or are not supported by substantial evidence. As shown by the legislative history of the Wunderlich Act, the Federal courts as well as our Office have authority to review these decisions to determine whether the standards prescribed by the act have been met.

On the basis of the record, as outlined in our report in this case, we believe that the decision by the Armed Services Board of Contract Appeals was so unreasonable and erroneous as to be arbitrary and that it was not supported by substantial evidence with respect to a crucial point. Had the matter been submitted to our Office by the Air Force after the decision was rendered, we would have questioned the "finality" of the Board's decision on that basis. However, the subsequent agreement entered into by the Air Force releases Curtiss-Wright from any further claims by the Government and thus bars our Office or the courts from taking legal action in this case. Moreover, this release agreement, in effect, defeats the provisions of the Wunderlich Act in that such a release precludes further administrative or judicial reviews of board decisions adverse to the Government even though such decisions may be capricious, or arbitrary, or not supported by substantial evidence and, thus, of a nature from which the Congress intended that relief would be provided under the act.

To prevent recurrence of this situation, whereby the Government is precluded from taking action on decisions adverse to itself, we are today directing all executive agencies of the Government to include, in any release or other contractual instruments entered into as a result of a decision under a contract disputes clause, a provision to the effect that the instrument is not binding on the Government if the decision under the disputes clause is later found to be in violation of the standards set forth in the Wunderlich Act.

Index No. 19

B-146783, May 16, 1963

Report on Review of the Procurement by the Army of Defective Canvas End Curtains for $\frac{3}{4}$ -ton and $2\frac{1}{2}$ -ton Cargo Trucks

Two contractors produced canvas end curtains for $\frac{3}{4}$ -ton and $2\frac{1}{2}$ -ton cargo trucks that contained obvious defects, and these curtains, procured for \$315,000, were accepted by the Army without an adequate inspection. As a result, (1) the curtains that either have been or will be issued will probably require premature replacement or repair and (2) curtains had to be fabricated at extra costs of about \$24,000 to the Government to meet urgent demands while defective curtains were withheld from issue. On the basis of Army estimates, it would cost about \$200,000 to repair or replace the defective curtains.

The Assistant Secretary of the Army (Installations and Logistics) agreed that defective curtains had been accepted by the Army but stated he did not believe that the losses would be as extensive as those indicated in our report. However, our estimates are based on reports made by the Army. The Assistant Secretary advised us that the Army will review the cases covered in our report, and, in the event "legal" recourse is precluded, a demand would be made for refund of the amount "equitably" due by reason of failure to meet contract specifications.

The contracts provide that acceptance of the material is conclusive except for latent defects, fraud, or such gross mistakes as to amount to fraud. We believe that the defects in curtains may be considered gross mistakes and we therefore recommended that the Secretary of the Army pursue the recovery on these grounds.

The Assistant Secretary of the Army advised us also of the actions being taken to improve the Army's inspection procedures but did not indicate whether

action was taken against the personnel responsible for the acceptance of the defective material. In view of the indications of incompetence or negligence, we recommended also that the Secretary of the Army determine those responsible for the deficiencies reported herein and effect such disciplinary action as may be appropriate.

Index No. 20

B-146756, May 17, 1963

Report on Examination of the Abnormally High Prices of Polaris Missile Parts under Subcontracts Awarded to The Brush Beryllium Company by Lockheed Aircraft Corporation and Charged to the Navy under a Cost-plus-a-fixed-fee Contract

Our review disclosed that Lockheed Aircraft Corporation issued eight fixed-priced purchase orders to The Brush Beryllium Company, considered as the only qualified source for a classified POLARIS missile part known as a FOX, at prices quoted by Brush without being furnished adequate information on prior cost or other evidence to support the reasonableness of the prices. Although Lockheed attempted to obtain adequate cost data, Brush refused to furnish detailed cost information, stating that it was against company policy to do so. In the absence of such information, and since competition was practically nonexistent, Lockheed had no assurance as to the reasonableness of the prices. As a result, Lockheed was not aware that the quoted prices for the 259 FOXES, totaling \$2,839,420, were abnormally high when compared with prior costs. Brush's quoted prices included a price breakdown showing a 20 percent factor for profit and contingencies. Actually, on the basis of the latest available cost experience at the time of each purchase order, the quoted prices exceeded prior costs by \$785,906, or more than 38 percent.

Our findings show that Brush took full advantage of its position as the only qualified supplier of FOXES to propose and secure contract prices which were considerably in excess of Brush's experienced costs for producing FOXES. Further, such prices were not supported by any evidence that anticipated costs would not be comparable with prior experience. It is not reasonable for the Government to incur additional costs and for Brush to benefit by a corresponding amount because Brush did not provide current pricing information and Lockheed and the Navy did not obtain the information necessary to properly evaluate Brush's price proposals. We believe that a price adjustment is in order and we recommended that the Navy take all available and appropriate action to obtain proper recovery from The Brush Beryllium Company.

Index No. 22

B-146781, May 20, 1963

Report on Examination of Catalog Prices Charged for Airborne Radar Beacons Developed with Government Funds and Supplied to the Military Departments and Their Prime Contractors under Noncompetitive Procurements with ACF Electronics Division, ACF Industries Incorporated, Paramus, New Jersey

Prices charged by ACF Electronics Division, ACF Industries Incorporated, Paramus, New Jersey, totaling \$1,229,000 under noncompetitive procurements for airborne radar beacons, exceeded its current costs of production by \$595,000, or an average of 94 percent, and were based on a commercial-type sales catalog even though ACF had never sold this beacon commercially. Prior to accepting these catalog prices, agency and contractor procuring activities in some instances requested ACF to furnish cost and pricing data; but in each case ACF refused to furnish the data. After obtaining explanations from ACF, military negotiators accepted the proposed prices without cost data on the basis that the beacon was a proprietary catalog item. We found no evidence that any of the procuring activities verified whether the radar beacon was, in fact, a proprietary item. Such a review would have disclosed that the radar beacon was actually developed at Government expense under the ATLAS missile program and that the Government had unlimited rights to the beacon drawings and technical data.

After our findings were brought to the attention of the Department of Defense, we were informed that as late as 1962 ACF was still selling military items on a catalog basis and refusing to furnish supporting cost data. In the current procurement, ACF based its refusal on the contention that a transistorized version of the airborne beacon discussed in this report was a "proprietary item." However, we found that this later version of the beacon was developed, at least in

major part, at Government expense under project MERCURY contracts awarded by the National Aeronautics and Space Administration.

Although the procurements cited in our report were awarded under negotiation procedures authorized by the Congress when full and free competition is not available, ACF has informed us that its prices were not subject to negotiation, but rather were "offers to sell on a standard catalog basis which could be accepted or rejected, but not negotiated * * *." ACF's use of commercial catalog pricing, however, provided no assurance that its prices were fair and reasonable and was inappropriate for unique military hardware sold exclusively to the Government in noncompetitive procurements. Also, the prices were clearly in excess of those normally agreed upon where, in the absence of competition, negotiations are conducted on the basis of expected cost of performance.

Recent legislation enacted by the Congress as Public Law 87-653, effective in December 1962, is intended to preclude recurrence of the practices discussed in our report. Under the new law, a catalog product procured without competition is exempted from a requirement to furnish accurate cost data only if the product is sold in substantial quantities to the general public. Effective administration of Public Law 87-653 should minimize instances of procurement priced on a catalog basis, where noncompetitive items are sold predominantly to the military departments. If suppliers of sole-source items insist on catalog prices and refuse to furnish cost data needed to evaluate the reasonableness of such prices, contracting officials are required to refer such instances to the Secretary of the Department for consideration of appropriate action. Compliance with these new legal requirements should materially improve the negotiation of contract prices.

Inasmuch as the contractor refused to make available to contracting officials the means to evaluate contract prices for items developed at Government expense, we believe that it is inequitable for the contractor to benefit from the inflated prices accepted by the Government. We recommend, therefore, that the Secretary of Defense have the military departments take all possible action to recover the excess amounts paid ACF for these radar beacons.

Index No. 31

B-146734, June 25, 1963

Government's Loss of Capability to Competitively Procure Replacement Spare Parts for Military Gas Turbine Engines Developed under Contracts with United Aircraft Corporation, East Hartford, Connecticut

We made a review on the Government's loss of capability to competitively procure replacement under contracts for military gas turbine engines developed under contracts with United Aircraft Corporation, East Hartford, Connecticut. Our review included examination of 44 contracts covering the research, development, improvement, and production of these engines over a period from December 29, 1944, to December 14, 1962. These contracts involved a financial outlay by the Government of more than \$4 billion, of which almost \$400 million was for research and development.

The Government gradually lost its capability to use technical data necessary for competitive procurement of replacement spare parts for military gas turbine engines developed and produced by United Aircraft. Under its contracts with United Aircraft for the research and development of the engines, the Government acquired a massive amount of related technical data together with the unrestricted right to use the data for any governmental purpose, including reprourement. However, this capability was lost by the Department of the Navy's failure, when entering into and administering follow-on production contracts, to acquire unlimited rights to use current data which gradually replaced the unrestricted data. The effect of this was costly to the Government in that it established United Aircraft as a virtual sole-source supplier of replacement parts for the engines used by more than 50 percent of the entire tactical and strategic air arms of the United States Armed Forces. As established in our September 1961 report on "Review of Noncompetitive Procurement of Aeronautical Replacement Spare Parts Within the Department of Defense," the failure of the military services to procure such parts on a competitive basis to the maximum practicable extent was increasing the price of the applicable spare parts to the Government by about 50 percent.

The Government's failure to obtain the right to effectively use technical data acquired under its contracts with United Aircraft also adversely affected the Government's right to practice inventions assigned or licensed to the Government by United Aircraft. In failing to acquire unlimited rights to use related

technical data essential to the unrestricted exercise of the rights to practice the assigned or licensed inventions, the Navy in effect deprived the Government of the practical means necessary to use such inventions for competitive procurement purposes.

In commenting on our findings, the Navy agreed that "limitations on the use of data, acquired under contracts with United Aircraft, and relating to military gas turbine engines, have limited its ability to carry out the program for increasing competitive procurement of replacement spare parts for such engines." In considering the possibility of reestablishing the Government's rights in the data involved, the Navy determined that an alternative remedy, a so-called "engineering-critical" plan, would be more advantageous and less costly for increasing competitive procurement of the replacement parts than would the reacquisition of unlimited rights to use data generated by United Aircraft in the performance of Government contracts.

The essentials of the engineering-critical plan are summarized in the letter of February 28, 1963, from the Deputy Assistant Secretary of Defense for Procurement, transmitting the Navy's comments. This letter states that:

"In essence, Navy proposes an arrangement with UAC [United Aircraft Corporation] under which all engine parts will be classified as engineering-critical or non-engineering critical, depending primarily on whether the parts can be safely and satisfactorily manufactured by other sources. UAC will furnish complete technical data for all parts regardless of the classification and regardless of any claims of proprietary rights that UAC may have. For parts classified as engineering-critical, Navy will be free to use this data for all Governmental purposes except procurement. For parts classified as nonengineering critical, Navy will be able to use the data for all purposes including procurement. "This arrangement would in effect enable the parties to bypass the rights-in-data issue * * * Navy's right to unlimited use of the data * * * would be determined by technical considerations rather than by legal considerations. * * * this resolution of the legal issues represents a significant step toward more effective use of technical data for procurement purposes."

The Deputy Assistant Secretary of Defense advises further that revision of the Armed Services Procurement Regulation is now in process to provide for inclusion of a suitable provision in future production contracts whereby technical data relating to changes and improvements to military hardware, developed under research and development contracts, will be furnished without limitation as to use. The Navy also advises that, with respect to patent rights it will assure itself "that it receives a formalization of any patent rights to which it may be entitled under any of its research and development contracts" with United Aircraft.

In view of the action that has been taken or is planned by the Departments of Defense and the Navy, we did not recommend any further action. However, since the engineering-critical provisions in the Navy's 1962 contract with United Aircraft to effect initial implementation of the basic concepts of the proposed plan represent a unique approach and possible solution to the technical data problem, we intend to review the administration of these contract provisions to inquire into the extent to which, in our opinion, the Government's interests are being subserved or are being adversely affected thereby.

Index No. 33

B-146795, dated June 26, 1963

Overpricing of Teletypewords Procured under Department of the Army Negotiated Contract with Kleinschmidt Division, Smith-Corona Marchant, Inc. Deerfield, Illinois

The contract price to the Government under Department of the Army negotiated fixed-price contract DA-36-039-SC-81780 with Kleinschmidt Division, Smith-Corona Marchant, Inc., Deerfield, Illinois, was increased by about \$194,000 because it was based on cost estimates for material and labor that were higher than those justified by information available to the contractor at the time of its proposal or before the contracting officer completed his analysis of the proposed price. The contracting officer did not examine all information available in support of the cost estimates and accepted the proposed price without assurance that the estimates were reasonable.

The Department of the Army advised us that it would (1) evaluate the Government's equitable position to determine if an adjustment in the contract price is warranted and (2) refer this case to appropriate training elements to empha-

size the need for adequate price analyses even when proposed prices are lower than those paid in the past. We are of the opinion that the circumstances surrounding the award of this contract justify an equitable adjustment of the price, and we therefore recommended that the Department of the Army take the necessary steps to secure an appropriate refund.

Index No. 37

B-133396, June 28, 1963

Follow-Up Review of Noncompetitive Procurement of Aeronautical Replacement Spare Parts within the Department of the Army

We made a follow-up review of noncompetitive procurement of aeronautical replacement spare parts within the Department of the Army. Hearings were held on this subject in May, June, and July 1961 before the Subcommittee for Special Investigations, Committee on Armed Services, House of Representatives, as a result of a General Accounting Office review conducted within the Department of Defense. The General Accounting Office report (B-133396) on that review was issued to the Congress in September 1961.

Our follow-up review disclosed that the Army had made considerable progress toward increasing competitive procurement of aeronautical replacement spare parts and that the extent of competition attained in procurement of spare parts improved from 3.8 percent noted during our earlier review to 17.6 percent during the last half of fiscal year 1962. However, we found that little or no progress had been made in improving technical data files as a basis for increased competition in future procurement.

Our tests during fiscal year 1962 indicate that a substantial number of non-competitive purchases could have been made by other means and that, in the cases we identified, estimated savings to the Government would have amounted to more than \$309,000.

The Deputy Assistant Secretary of the Army (Installations and Logistics) in commenting on our findings advised us in a letter dated February 14, 1963, that a number of problems had been recognized in the area of competitive procurement, particularly in the acquisition and control of data on aeronautical repair parts. He further stated that cognizant personnel had been instructed to intensify their efforts in this area. The Department of the Army also advised us of the corrective actions taken or in process with respect to our findings. In view of the actions taken by the Army, we did not make any recommendation. However, as part of our continuous review of the Department of the Army activities, we plan to evaluate the effectiveness of these actions.

Index No. 39

B-146802, June 28, 1963

Report on Overpricing of Adaptation Kits for M-113 Vehicles Under Department of the Army Contract Negotiated with FMC Corporation, San Jose, California

Our review disclosed that the contract price of adaptation kits for M-113 vehicles under a Department of the Army contract negotiated with FMC Corporation, San Jose, California was overstated by about \$83,000 because of improper cost adjustments made after specifications were significantly changed. Neither the Army nor the contractor made an adequate analysis of these changes to identify and properly price the parts being revised. As a result, excessive costs were included in the contract price for parts and labor.

As a result of our inquiries into this matter, the contractor acknowledged that overpricing had occurred, recomputed the contract price, and refunded \$78,377, or about \$4,500 less than we identified. The Deputy Assistant Secretary of the Army informed us that the Army would assure that all unnecessary costs have been recovered in negotiating the final settlement.

FMC Corporation agreed that it had made an error in not deleting certain parts costs but attributed this to an unusual procedure followed by the Army in releasing engineering orders which included a new design, but failed to make the usual cross reference to work deleted from the original design. In these circumstances, we believe it was unreasonable to attempt to negotiate revised prices for design modifications until sufficient information was available upon which to base a reasonable estimate of the cost of the design changes.

We recommended that the Secretary of the Army require the Army Materiel Command to revise its procedures to provide that contracting officers be furnished all necessary information from the Army activity making the technical changes and that they adequately analyze the changes made so that appropriate price adjustments can be negotiated.

Index No. 42

B-118763, June 28, 1963

Report of Failure of the Department of the Navy to Fully Recover Excessive Administrative Cost Allowances included in Fixed Prices Negotiated with Brown-Raymond-Walsh (A Joint Venture) Under Contract NOy-83333 for the Spanish Base Construction Program.

The fixed price negotiated in conversion of a portion of contract NOy-83333 from a cost-plus-a-fixed-fee basis to a fixed-price basis included administrative cost allowances to the prime contractor, Brown-Raymond-Walsh (a joint venture) under contract NOy-83333 for the Spanish Base Construction Program, that were about \$6.7 million in excess of a reasonable estimate of the costs to be incurred. After we had reported this to the Congress (B-118763), dated December 30, 1960), a Navy official informed a congressional subcommittee that, by placing additional work under the contract with little or no allowance for the contractor's related administrative costs, as at April 1, 1961, the Navy had recovered \$5.1 million of the excess cost allowance reported by us and that negotiations would be instituted with the contractor to ensure full recovery prior to contract closing. However, the Navy overstated the amount of recovery by \$2.1 million because it computed the contractor's normal entitlement to administrative cost allowances on the basis of amounts included in all change orders since conversion, without any attempt to eliminate inapplicable items. For example, the Navy did not eliminate from its computation certain construction work added by change orders after conversion even though it should have been evident that the contractor had previously received its administrative cost allowance on this work. The Navy's actual recovery by placing additional work under the contract was about \$3 million. Therefore, of the estimated \$6.7 million of excess administrative costs allowed in the fixed price negotiated in conversion, about \$3.7 million was outstanding at completion of the contract. The Navy has informed us that it has been unsuccessful in effecting further recovery from the contractor.

We recommended to the Secretary of Defense that he initiate any action which may be available to him and is necessary to obtain from the contractor recovery of the excessive administration costs now outstanding.

Index No. 43

B-133396, June 28, 1963

Report on Follow-up Review of Noncompetitive Procurement of Aeronautical Replacement Spare Parts in the Department of the Air Force

We made a follow-up review of noncompetitive procurement of aeronautical replacement spare parts in the Department of the Air Force. The purpose of our review was to determine what progress has been made by the Air Force in its efforts to increase competitive procurement of aeronautical spare parts and to eliminate deficiencies in the receipt, control, and use of contractor-furnished engineering data, which were cited in our earlier report on this subject, dated September 1961 (B-133396).

Considerable progress has been made by the Air Force since our last review, both in increasing competition in the procurement of spare parts and in improving conditions with respect to control and use of engineering data. Within these two areas there are still certain operating problems; however, it was not expected that all the conditions described in our previous report could be remedied quickly or easily. We estimate that, during fiscal year 1962, the Air Force realized savings of about \$41.8 million which appeared to be attributable in large part to increased competitive procurement.

Our review disclosed that the progress made by the Air Force in increasing competitive procurement has been accomplished largely without using engineering data to describe the items required to potential suppliers. Further progress, in our opinion, is dependent upon the Air Force's ability to make greater use of engineering data in soliciting proposals. In this connection, we noted certain weaknesses in current contracting practices and in contract administration which appear likely to restrict the extent to which engineering data being received can be used in the future for competitive procurement.

We are especially concerned with the type of restrictive legends contractors are permitted to place on data submitted under contracts containing limited rights clauses. These clauses provide that portions of the data to be submitted will be subject to limitations on the Government's rights to release the data

outside the Government. These limitations, which affect the Government's ability to use the data for competitive procurement, stem from contractors' claims of proprietary interests in some elements of the information. The Air Force has permitted contractors to imprint drawings and other data with broad general descriptions of various categories of proprietary information as a means of identifying those drawings containing such information, instead of requiring the particular elements of information considered proprietary to be specifically marked. We believe the Air Force has adopted an overly liberal interpretation of what constitutes satisfactory identification by contractors of information considered proprietary. The Air Force has advised us that it does not agree with this conclusion and that its interpretation provides a practicable method of identification. However, we believe the Air Force interpretation results in needlessly complicating the task of evaluating the validity of contractors' claims to proprietary information.

We therefore recommended that the Secretary of Defense direct the Air Force to revise its interpretation of the Armed Services Procurement Regulation clauses and strictly enforce the requirements for specific marking by contractors of data submitted to the Government to clearly identify those portions considered proprietary.

In commenting further on our findings, the Office of the Secretary of the Air Force has stated that, in all the areas cited by us, efforts are being made to introduce improved procedures or to more effectively enforce those in existence.

Index No. 51

B-146788, July 31, 1963

Report on Additional Costs Resulting from Procurement of Test Equipment as Special Tooling under Cost-plus-a-fixed-fee Contracts awarded to Lockheed Aircraft Corporation Missile and Space Division, Sunnyvale, California, by the Department of the Air Force and Navy

Lockheed Aircraft Corporation, Missile and Space Division, Sunnyvale, California, acquired test equipment as special tooling under various Air Force and Navy cost-plus-a-fixed-fee contracts rather than as industrial facilities under no-fee facility contracts. We believe that, if the items of test equipment had been appropriately identified and described, equipment having a total cost of at least \$4.5 million would have been classified as industrial facilities, deleted from the fee-bearing contracts, and acquired under Lockheed's no-fee facility contracts. On the basis of rates agreed upon in negotiation of the contracts, we estimate that, had the \$4.5 million worth of test equipment been classified as industrial facilities, a proportionate reduction in the contractor's fees would have amounted to about \$289,000.

We brought our findings to the attention of the contractor and the Secretaries of the Air Force and Navy. The Department of the Navy agreed with our findings and stated that it had already recovered unwarranted fee payments amounting to \$16,852. The Navy stated further that it would review the properties acquired by Lockheed under its supply contracts and would obtain additional fee adjustments where justified. The Navy advised also that, since the close of our examination, more stringent procedures regarding acquisition of facilities have been instituted.

After we brought our findings to the attention of the Air Force, it revised its Procurement Instruction on October 31, 1962, to exclude from profit or fee consideration the cost of general-purpose items purchased as components of, or for assembly in, special test equipment or other special equipment. However, neither the Air Force nor the contractor agreed that in this instance the test equipment acquired by Lockheed for Air Force contracts was misclassified.

We recommend that the Secretary of Defense provide in procurement regulations and instructions a clear and unequivocal basis for identifying and classifying as industrial facilities those significant items of general-purpose test equipment which are not limited to use in production of supplies peculiar to the needs of the Government. We recommend also that the Secretary of Defense instruct the Air Force to institute an appropriate review of all significant items of test equipment procured by Lockheed as special tooling under Air Force fee-bearing supply or service contracts and take such action as may be necessary to effect an equitable adjustment in fees allowed to Lockheed where such fees include amounts attributable to the procurement of industrial facilities.

Index No. 52

B-146801, July 31, 1963

Report on the Increased Price for Ballistics Computers Resulting from Excessive Estimated Material Costs Under Department of the Air Force Contract AF 09(603)-34097 with Servomechanisms, Inc., El Segundo, California

The report shows that the price proposed by Servomechanisms, Inc., El Segundo, California, and accepted by the Air Force without charge, included estimated material costs that were excessive in relation to cost and pricing information available to the contractor when the contract price proposal was prepared. These excessive costs and related overhead costs and profit, amounting to about \$83,800, were included in the contract price of \$308,516.

The Air Force reviewed the pricing of the contract after we brought this matter to its attention and strongly urged the contractor to make a voluntary refund in the amount disclosed by our examination. The contractor, however, refused to make a refund on the basis that the above-average profits it had realized under contract AF 09(603)-34097 were largely attributable to inadequacies in its price estimating procedures which it claimed had also resulted in heavy losses under other contracts.

The Air Force advised us that, since there was no legal basis under which a refund could be obtained, further effort to obtain a refund was not considered worthwhile. The Air Force further advised us, however, that the price estimating system and procedures of Servomechanisms, Inc., had been reviewed and that the contractor had agreed to substantially all the recommendations made by the Air Force to improve the system and procedures. We were informed also that the Air Force was taking action to bring the details of this case to the attention of its contracting officials in the field.

We believe that Air Force actions requiring Servomechanisms to improve its price estimating procedures should reduce the possibility of further overpricing in future contracts which the Air Force may negotiate with Servomechanisms. However, the importance of negotiating fair and reasonable prices at the outset is clearly illustrated by the inability of the Air Force to obtain a price reduction after the price has been negotiated and performance under the contract has been completed. The position taken by Servomechanisms in refusing to make a voluntary price reduction is not in consonance with the position taken by other contractors which under comparable circumstances have agreed to negotiate adjustments of the prices and have made voluntary refunds to the Government. We recommended that the Secretary of Defense continue the efforts to obtain a price reduction from Servomechanisms for the excessive estimated material costs and related overhead costs and profit included in the price negotiated for contract AF 09(603)-34097. Also, we recommended that the Secretary of Defense make this contractor's adamant position known to all procuring activities and that it be given appropriate consideration in connection with contemplated future procurement from this country.

Index No. 53

B-146784, July 31, 1963

Report on Noncompetitive Procurement of Military Aircraft Forgings from Aluminum Company of America at Prices Substantially Higher than Current and Expected Costs of Production

For noncompetitive sales of military aircraft forgings totaling \$2.6 million, Aluminum Company of America, Pittsburgh, Pennsylvania consistently quoted prices substantially above its current and expected production cost, and, even though competition was lacking, the company refused to furnish cost data to its military customers, thereby precluding open negotiation of prices. These prices exceeded ALCOA's known current production cost by \$893,300, or an average of about 51 percent. Notwithstanding the absence of effective competition and the fact that ALCOA's favored position stemmed in part from its possession of special Government facilities, the company refused to accept subcontracts on any basis other than its own terms and rejected the inclusion of contract provisions granting the Air Force or its contractors the right to review actual cost data. As a result of the position taken by ALCOA, and the pressure of time in the overall production of the related aircraft, its military customers had to accept the prices offered without benefit of normal negotiation processes.

We found evidence during our review that the practices noted above are generally followed by ALCOA in the pricing of all Government business, amounting

to many millions of dollars annually, and we are therefore vitally concerned over the reasonableness of the prices paid. All efforts of the Department of the Air Force to obtain data from ALCOA with respect to the cases cited, as well as other prior Air Force defense business, have been resisted by the company pending the issuance of our report. We recommended that, in addition to taking immediate steps to effect equitable settlements on the contracts discussed in our report, the Secretary of Defense vigorously support the recent Air Force action to examine into the prices negotiated with ALCOA for other defense business. Also, we requested the Secretary of Defense to notify us in the event ALCOA further denies the Air Force access to its records and to keep up currently informed of the progress made in obtaining an equitable adjustment of contract prices.

Index No. 57

B-133371, August 30, 1963

Report on continued uneconomical use of first-class air-travel accommodations by employees of defense contractors.

In June 1961 the General Accounting Office issued a report to the Congress (B-133371) on a review of air-travel policies of selected defense contractors. That review disclosed that some contractors had voluntarily adopted policies encouraging their employees to use air accommodations less costly than first class while other contractors had policies which neither required nor suggested the use of such accommodations and that, as a result, millions of dollars of unnecessary costs were being incurred under defense contracts. Subsequently, the Department of Defense urged its contractors to adopt policies to assure the use of accommodations less costly than first class wherever feasible.

We performed a follow-up review of the air-travel policies and practices of 20 defense contractors to determine the extent of the application of the policy urged by the Department of Defense. This review disclosed that, although substantial savings were being achieved, certain policies and practices of nine contractors resulted in continued uneconomical use of first-class air accommodations. The practices included (1) travel by a major aircraft manufacturer on customer airlines regardless of availability of less costly accommodations, (2) blanket authorization of first-class travel on propeller-driven aircraft, including prop-jet service, (3) unrestricted use of first-class travel on flights taken after business hours, (4) exclusion of a large group of contractor employees from the economical air-travel policy, and (5) failure to effectively enforce the economical air-travel policy.

We brought our findings to the attention of the Department of Defense and stated that, in the event the practices disclosed in our review were allowed to continue, other contractors might consider these practices permissible and establish policies accordingly. We suggested that action be taken by the Department of Defense to provide closer surveillance over the air-travel practices of defense contractors and to disallow any unreasonable air-travel costs included in contract prices to the extent that contractors have not exercised due care in expenditures to be reimbursed by the Government.

The Department of Defense contacted the contractors discussed in our report, and action was taken to eliminate the uneconomical practices. In addition, the agency advised us that plans were being made to incorporate in the Armed Services Procurement Regulation the policy on the use of air accommodations less costly than first class as a means of giving this policy more permanent standing, as well as assuring that it shall receive more consistent and effective implementation.

Index No. 58

B-146805, August 30, 1963

Report on Unreasonably High Prices Paid for Nickel Cadmium Aircraft Storage Batteries Under Negotiated Fixed-price Contract AF 01(601)-22629 with Sonotone Corporation, Elmsford, New York, Department of the Air Force

Our review revealed that Sonotone Corporation, Elmsford, New York, did not disclose significant available cost and production information to the Air Force before award of firm fixed-price contract AF 01(601)-22629 for MA-2 nickel cadmium aircraft storage batteries and related spare parts for which Sonotone was then the sole supplier. In addition, during performance of the contract, Sonotone changed the battery design without Air Force approval and delivered a less costly battery than that approved for Air Force use as a qualified product

for which the contract award was made. As a result, the total contract price of about \$1,901,200 exceeded costs by about \$704,000, or 58 percent of incurred costs. Our review disclosed that about \$180,300 of this amount pertained to overestimates resulting from Sonotone's failure to disclose significant information available at the time of negotiations. Although we could not identify the specific amount, it appears that a substantial portion of the remainder of the \$704,000 was attributable to the change in design of the battery rather than to Sonotone's efficiency in performing the contract.

With respect to the changes made by Sonotone in the battery design on which qualification approval was granted by the Air Force and on which the contract award was based, we believe that the contractor had no legal basis for delivering changed items without prior Air Force approval. Sonotone's failure to notify the Air Force of its proposed changes in battery design prevented the Air Force from evaluating either the technical aspects of the changes or the pricing implications attendant to the changes. It seems likely that the Air Force would not have known of the changes had we not brought this matter to its attention. However, even after we had informed Air Force technical personnel of the changes in battery design, and this information was made known to Mobile Air Materiel Area contracting personnel, no recognition was given to the pricing implications of the contractor's actions.

The contractor informed us that it had been advised by its attorneys that there was no legal obligation requiring it to reduce the price in this instance. We do not agree with the opinion that Sonotone has no legal obligation requiring it to reduce the price of contract -22629. However, Sonotone stated also that in the interest of maintaining its excellent relationship with the Air Force and other defense procurement agencies, it would not be adamant, but would be agreeable to the negotiation of a price reduction as we had proposed. The Assistant Deputy for Procurement Management, Office of the Assistant Secretary of the Air Force, informed us that the Air Force concurred with our proposal that a refund be sought from the contractor and that it was contemplated that negotiations with the contractor would be held on or before June 1, 1963. However, subsequently we were informed by the Air Force that as of June 30, 1963, negotiations with the contractor had not begun.

The actions contemplated by the Air Force and the contractor in this case may result in the negotiation of a price reduction. There is no assurance, however, that cases of overpricing will be disclosed and appropriate adjustments obtained. Therefore, we believe that there is no substitute for establishing contract prices at the outset on the basis of current, complete, and correct cost and pricing data available at the time of price negotiations. We requested the Secretary of the Air Force to advise us of the final action taken in this matter.

We recommended to the Secretary of Defense that he take actions necessary to assure that (1) when a contract item is a qualified product, the item delivered is identical with the product on which qualification approval was granted and (2) when changes in a qualified product are permitted by agency personnel, the effect of the changes on the costs included in the negotiated contract price be evaluated and the contract price adjusted appropriately.

Index No. 59

B-133058, September 11, 1963

Report on Increased Costs Resulting from Failure to Procure Ships Spare Parts Competitively or Directly from the Manufacturer, Department of the Navy.

We examined selected noncompetitive procurements of 282 ships spare parts that were made by the Ships Parts Control Center during the calendar years 1960 and 1961. The procurements we reviewed were selected from noncompetitive procurements of 521 different ships spare parts that the Ships Parts Control Center had purchased from eight different suppliers. The 282 parts were chosen as those most likely to have been susceptible of competitive procurement and for the most part were relatively simple items having a unit price of under \$1,000. Noncompetitive procurements of these 282 parts during the period we reviewed totaled \$3,400,000. The Ships Parts Control Center's procurements of ships parts during fiscal years 1960 and 1961 totaled \$158,400,000 of which \$111,300,000 or 70 percent were made on a noncompetitive basis.

On the basis of information disclosed by our review, we estimate that the Ships Parts Control Center could have saved a substantial portion—perhaps as much as \$1,500,000—of the \$3,400,000 total cost of the 282 parts if it had purchased the parts competitively or directly from the actual manufacturer. Our

review of selected procurements of these 282 parts disclosed that, despite the sizable savings obtainable, the Ships Parts Control Center had made these purchases from sole-source suppliers (generally the manufacturer of the equipment on which the parts were used) without having made a thorough inquiry into the feasibility of buying these parts from other sources. Our review also disclosed that the Ships Parts Control Center contracted for 36 other parts at a cost of about \$191,000, even though it had previously purchased identical items on a competitive basis or directly from the actual manufacturer at prices which, for the same quantities were about \$89,000 lower.

Our review indicated that the Ships Parts Control Center's failure to make the fullest use of competition in purchasing spare parts was the result of (1) failure to effectively utilize engineering and technical data to obtain competition, (2) lack of adequate consideration of savings obtainable through competition on purchases under \$2,500, and (3) failure to fully evaluate the essentiality of the services performed by the sole-source supplier. We also found that, when competition was not practicable, the Ships Parts Control Center frequently did not attempt to buy parts directly from the actual manufacturer but continued to buy from the manufacturer of the equipment on which the parts were used, since the Ships Parts Control Center considered the equipment manufacturer to be its sole-source supplier for these parts.

After we discussed our findings with officials of the Ships Parts Control Center, they undertook an inquiry into the cases disclosed by our review. The results of their inquiry indicated that the purchase of 158 of the 282 cases we reviewed could have been made on a competitive basis or directly from the actual manufacturer. By reviewing the results of the Ships Parts Control Center's inquiry, we found that for the remaining 124 cases the Ships Parts Control Center had not resolved many of the basic issues which had originally prevented it from purchasing the items from any source except its sole-source supplier. From the information disclosed by our review, it appeared that further study of these cases might make it possible to procure many of the remaining items on a competitive basis or directly from the actual manufacturer.

In commenting on our findings, the Navy agreed that efforts should be intensified to obtain the maximum amount of competitive procurement that is practicable and advised us of corrective measures that are being taken or have been taken by the Ships Parts Control Center. The measures that the Navy advised us will be taken appear to offer a satisfactory means of correcting most of the deficiencies disclosed by our review and should result in greater competition and lower prices if they are effectively put into practice. However, we believe that these measures do not provide for sufficient consideration of parts having annual requirements of less than \$2,500, and we therefore are recommending that competition be obtained for such procurements whenever the necessary data are available and it is economical to do so. Such competition could be obtained by informal solicitation of potential suppliers when that method of obtaining competition is deemed the most practical.

In view of the Navy's proposed action and the additional emphasis placed upon competitive procurement by Public Law 87-653, amending the military procurement statute, we did not recommend that the Ships Parts Control Center institute any additional corrective measures except as stated above. However, we plan to perform a follow-up review at a later date to examine into the effectiveness of the corrective measures taken by the Ships Parts Control Center.

We recommended that the Secretary of Defense inquire into the procurement practices at other military installations to provide assurance that the existence of deficiencies similar to those discussed above is not preventing the fullest use of competitive procurement and procurement from the actual manufacturer.

Index No. 60

B-133396, September 17, 1963

Report on unnecessary costs resulting from the noncompetitive procurement of aeronautical replacement spare parts by the Department of the Navy

In September 1961 we issued a report to the Congress (B-133396) on our Review of Noncompetitive Procurement of Aeronautical Replacement Spare Parts Within the Department of Defense. The purpose of our latest review was to evaluate the procurement practices of the Department of the Navy as they relate to aeronautical spare parts and to determine the extent to which corrective action had been taken by the Navy to obtain more competition in the procurement of these parts.

Our follow-up review disclosed that the Navy had made only limited progress in increasing competitive procurement of aeronautical replacement spare parts since our last review. In spite of several programs initiated by the Department of Defense and the Department of the Navy in fiscal year 1962, to screen planned purchases for the purpose of determining whether items previously purchased on a sole-source basis could be converted to competitive procurement, we found that the Navy had increased competitive procurement in fiscal year 1962 by only 1.8 percent over fiscal year 1961.

We made a review of a limited number of the sole-source purchases made by the Navy in fiscal year 1962 and found that in some instances the items could have been purchased competitively. We found also that other items were purchased by the Navy on a sole-source basis from prime contractors which in turn purchased the parts in completed form from subcontractors at prices substantially less than the prices paid by the Navy to the prime contractors. As a result of the failure by the Navy to obtain competition or to purchase the parts directly from the actual manufacturers, we estimate that the Navy incurred unnecessary costs of about \$3.3 million in the non-competitive procurement of about \$14 million worth of spare parts included in our limited review.

We found also that in many cases the Air Force had purchased, or had the necessary data available to purchase, either competitively or directly from the actual manufacturers, the same items which the Navy purchased on a sole-source basis. The Air Force was obtaining lower prices for these parts than the prices paid by the Navy under sole-source contract awards. This situation resulted largely from a Navy policy of buying items considered to be critical from the engine manufacturer which originally produced the applicable engines. A similar situation in which the Navy and the Air Force used different standards in purchasing identical parts was reported to the Congress on January 31, 1963, in our report (B-146748) on the Review on Uneconomical Procurement of Certain Aircraft Engine Bearings by the Department of the Navy.

Although the Navy had made improvements in its procedures for acquiring and controlling the technical data needed if reprourement is to be made competitively or on a direct basis, we found that significant problems still had not been resolved. Specifically, the Navy was not securing prompt replacements for illegible data and was not determining the validity of restrictive legends placed on data by contractors.

The Navy agreed with the general conclusions reached in our review, but disagreed with respect to the extent of progress made in increasing competitive or direct procurement. We were advised that the Navy feels that it has made real progress since September 1961, although it recognizes that much still remains to be done. We believe, however, that an increase of 1.8 percent in competitive procurement does not represent satisfactory progress.

The Navy advised that new procedures have been initiated since our review, or are being planned, to correct the deficiencies relating to illegible technical data and data inscribed with invalid restrictive legends. In addition, we were informed that insofar as new contracts are concerned the Navy is adopting a different approach, which does not require the solution of the complex problems relating to proprietary data. This new approach is based on an engineering determination as to the critical nature of a part and the necessity of the continuing involvement of the design activity in the manufacture of the part. In view of the early stages of this new concept, it is impossible to determine what its effect will be on the Navy's ability to increase competitive procurement.

We noted, however, that at least one of the major aircraft manufacturers had refused to accept the Navy's proposed terms for furnishing technical data, including the requirement that portions of technical data considered proprietary to be specifically identified. The Navy, in this case, allowed the manufacturer to place a blanket restrictive legend on all technical data. We recommended that, if further cases of this type arise, they be referred to the Secretary of the Navy for determination as to whether (1) the Government's need for the items being procured is so urgent and essential that there is no practical alternative to acceding to the contractors' demands, (2) it is possible to obtain these items from alternative sources, or (3) there is some other administratively feasible solution to the problem.

The purchases cited in our report, as well as other cases reported by this Office in the past, indicate that, despite the statements of policy and directives issued by the Department of Defense and the Navy, the Navy has not made maximum use of competition in the procurement of aeronautical spare parts. It is obvious, therefore, that more direct action must be taken in the form of almost

continuous reviews by responsible officials if competitive procurement is to be increased to the degree warranted. Accordingly, we recommended 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 replacement spare parts.

Index No. 61

B-146803, September 19, 1963

Report on procurement of defective rocker arm assemblies for combat vehicle engines from Hawk Tool and Engineering Company, Clarkston, Michigan

Our review disclosed that the Government incurred unnecessary costs of \$156,000 because the contractor, Hawk Tool and Engineering Company, Clarkston, Michigan, produced rocker arm assemblies that were defective and the Army accepted them without adequate inspection. We proposed that (1) the Secretary of the Army initiate action to recover the unnecessary costs from the contractor and (2) the Army Materiel Command review the contracting and contract administration procedures of the responsible procurement office and take corrective action as necessary.

The Acting Assistant Secretary of the Army (Installations and Logistics) advised us on May 23, 1963, that (1) the Detroit Procurement District by letter of April 4, 1963, informed the contractor that it was solely responsible for the defective rocker arm assemblies and requested payment to compensate the Government for damages and (2) disciplinary action was taken against the responsible Army inspector. The Acting Assistant Secretary stated also that under present procedures (1) contractors for military-type items must submit an approved detailed plan in support of their quality control activities and (2) Government inspection personnel are required to perform acceptance inspections to assure that only those materials which meet requirements are accepted.

On June 12, 1963, the attorneys for Hawk Tool and Engineering Company advised the Detroit Procurement District that they felt that the contractor was in no way responsible for the defective rocker arms. The contractor apparently has no intention to reimburse the Government for damages incurred.

We recommended that the Department of the Army, in continuing its efforts to obtain a suitable settlement of the Government's claim against the contractor, include coordination with the Department of Justice.

Index No. 63

B-146733, September 20, 1963

Report on overcharges by Westinghouse Electric Corporation for propulsion machinery for the aircraft carrier U.S.S. ENTERPRISE.

The price proposed by Westinghouse Electric Corporation and accepted by the Bureau of Ships for the A2W propulsion machinery and related stock components included unwarranted provisions for contingencies. Westinghouse included the contingencies in its proposed price but submitted a certified cost statement which indicated that no provision for contingencies was included in that price. The Bureau of Ships was unaware that Westinghouse's proposal included the contingencies since the Bureau did not obtain and review the detailed cost estimates supporting the proposal. The final amended contract price of \$9,618,594 included unwarranted contingencies of about \$1,353,440. Had the Bureau been aware of these contingencies, it would have been in a sound position to have obtained a reduction of about \$1,353,440 in the price of the A2W propulsion machinery and the related stock components.

Our findings were brought to the attention of Westinghouse and the Navy. In commenting on our findings, the Navy advised that if, after reviewing Westinghouse's comments on this case, it was still found that the contract price contained unwarranted contingencies, the Navy would make every effort to collect such amounts from Westinghouse. Westinghouse, in its comments on our findings, advised that the conclusions we have drawn from our review depend almost entirely on the inaccurate use of the word "contingency" by one of its estimators in his worksheets. Westinghouse denied that amounts labeled "contingency" were really contingencies, stating that they were, rather, adjustments to a prior estimate that repeated experience had shown to be too low. However, in evaluating Westinghouse's reply, we found no basis for Westinghouse's statement that the contingencies were, in fact, adjustments to a prior estimate, and we found no information that would either justify the contingencies or excuse Westinghouse for failing to disclose them to the Navy.

Also, neither Westinghouse's nor the Navy's comments provided any basis to justify the Navy's failure to verify the accuracy of the cost representations contained in Westinghouse's price proposal, and we therefore conclude that the Navy placed unwarranted reliance on Westinghouse's certification as to the accuracy of its pricing data.

We do not believe it reasonable that the Government should incur costs of \$1,353,440 and Westinghouse should benefit by that amount because a material fact affecting the pricing of the A2W propulsion machinery and related stock components was misrepresented to the Navy. We therefore referred copies of this report to the Department of the Navy and the Department of Justice, and recommended that the Navy, in cooperation with the Department of Justice, take all available and appropriate action to obtain proper recovery from Westinghouse Electric Corporation.

In recognition of the need for improving procedures relating to procurement by the military establishment through negotiations, the Congress enacted Public Law 87-653 approved September 10, 1962, amending the Armed Services Procurement Act of 1947, now carried in title 10, United States Code. By this act a new subsection was added to section 2306. This subsection provides in pertinent part that, with certain exceptions, a prime contractor shall be required to submit cost or pricing data prior to the award of any negotiated prime contract where the price is expected to exceed \$100,000 and that he shall be required to certify that, to the best of his knowledge and belief, the cost or pricing data submitted are accurate, complete, and current. The subsection provides also that any contract under which such a certificate is required shall contain a provision that the price to the Government, including profit or fee, shall be adjusted to exclude any significant sums by which such price is increased because the contractor furnished cost or pricing data that are inaccurate, incomplete, or noncurrent.

While the cost and pricing certificate Westinghouse made in this case was prior to the enactment of Public Law 87-653, we believe this case demonstrates that cost certifications, even those made in conformity to the requirements of this law, do not remove the need for appropriate review and verification by the military services. We therefore recommended that the Department of Defense bring this report to the attention of the contracting officers in the military services to illustrate that certified price proposals alone cannot be accepted as a reliable basis for negotiating contract prices but that reviews of the proposals and supporting cost estimates are necessary even when certifications have been obtained.

Index No. 69

B-146817, October 15, 1963

Unnecessary Cost in the Procurement of Clutch Pressure Plates, Department of the Army

The Army incurred unnecessary costs of about \$28,000 for clutch pressure plates through the inappropriate use of formal advertising procurement procedures and was planning an advertised procurement that would have resulted in additional unnecessary costs of \$56,000. Our review disclosed that formal advertising was inappropriate because there was only one manufacturer and all bidders contemplated obtaining the item from that manufacturer. In awarding advertised contract DA-20-113-ORD-29026, the Army failed to reject the bids and negotiate a reasonable price with the sole-source manufacturer even though it realized that the low bid was excessive. After we learned that the Army planned to procure additional clutch pressure plates by means of another advertised contract, we informed the contracting officials that advertised procurement was not proper because there was only one manufacturer and our review had disclosed that the price under the previous contracts -29026 was excessive in relation to the manufacturer's costs. The Army awarded the subsequent contract through negotiation, and, with the cost information we furnished, it was able to negotiate a price that resulted in savings of \$56,000.

The Department of Defense advised us that it believed that the procurement of the clutch pressure plates by formal advertising was justified in this case because the Army had adequate drawings and specifications and was attempting to secure effective competition. Our review disclosed, however, that information had been available to the Army on previous procurements indicating that, although drawings and specifications were made available to bidders, there was no effective competition because the bidders based their prices on purchasing the item from the sole-source manufacturer. We believe that the continued use of adver-

tising in the face of knowledge that there could be no effective competition violates good contracting procedure, and we recommended that the Secretary of the Army reprimand the contracting officials who were responsible.

The Department of Defense advised us further that the Army intends to negotiate the prices of its future procurements of clutch pressure plates and that it will test the market from time to time to stimulate competition and provide a check on prices. In addition, the Department of Defense will look into this matter to determine if a price adjustment under contract -29026 is warranted.

In order that contracting officers will have adequate information to evaluate bids, we recommended that the Secretary of Defense revise current procedures so that bidders will be required to state whether they intend to manufacture the items bid upon, to buy them from another source, or to furnish them from their available inventories. We recommended also that the Secretary of Defense bring this case to the attention of contracting officials to illustrate the need for adequate competition when procuring supplies by formal advertising procedures and for rejecting all bids when adequate competition is not secured.

Index No. 70

B-118763, October 21, 1963

Department of Defense Reply to B-118763, June 28, 1963; Failure of the Department of the Navy to Fully Recover Excessive Administrative Cost Allowances Included in Fixed Prices Negotiated with Brown-Raymond-Walsh (A Joint Venture) Under Contract NOY-83333 for the Spanish Base Construction Program.

We received a reply from the Department of Defense in response to our recommendation that action be taken to fully recover excessive administrative cost allowances included in fixed prices negotiated with Brown-Raymond-Walsh (a joint venture) under contract NOY-83333 for the Spanish Base Construction Program. This recommendation was included in our report entitled "Failure of the Department of the Navy to Fully Recover Excessive Administrative Cost Allowances Included in Fixed Prices Negotiated with Brown-Raymond-Walsh (a Joint Venture) Under Contract NOY-83333 for the Spanish Base Construction Program," B-118763, forwarded on June 28, 1963.

On December 30, 1960, we had forwarded a report, B-118763, disclosing that the fixed price negotiated in conversion of a portion of contract NOY-83333 from a cost-plus-a-fixed-fee basis to a fixed-price basis included administrative cost allowances to the prime contractor, Brown-Raymond-Walsh, that were about \$6.7 million in excess of a reasonable estimate of the costs to be incurred. On April 28, 1961, a Navy official informed the Subcommittee for Special Investigations, Committee on Armed Services, House of Representatives, that, by placing additional work under the contract with little or no allowance for the contractor's related administrative costs, as at April 1, 1961, the Navy had recovered \$5.1 million of the excess cost allowance reported by us and that negotiations would be instituted with the contractor to ensure full recovery prior to contract closing.

We examined into the extent of the recovery effected by the Navy and found that the Navy had erred in its computations—that actual recovery resulting from placing additional work under the contract only amounted to about \$3 million. Therefore, of the estimated \$6.7 million of excess administrative costs allowed in the fixed price negotiated in conversion, about \$3.7 million was outstanding at completion of the contract.

We brought this to the attention of the Secretary of the Navy. By letter dated January 9, 1963, the Assistant Secretary of the Navy (Installations and Logistics) informed us that, since completion of the contract, strenuous but unsuccessful efforts had been made to effect further recovery from the contractor. Therefore, in our report of June 28, 1963, we recommended that the Secretary of Defense initiate any action which might be available to him that was necessary to obtain recovery of the outstanding balance of excessive administrative cost allowances to Brown-Raymond-Walsh.

In his reply the Deputy Assistant Secretary stated that, as a result of a review of all previous actions, it was determined that there was no legal basis for compelling any further repayment by the contractor, and that any action by his office to effect recovery by other than legal means would be inappropriate under the circumstances. He also stated that this matter would receive special separate attention by the Renegotiation Board.

We sent copies of our report to the Chairman of the Renegotiation Board and recommended that, in the renegotiation of Government business performed

by Brown-Raymond-Walsh, the Renegotiation Board take all action available to it to effect recovery of the \$3.7 million of excess administrative costs that is still outstanding. Also we asked the Chairman of the Renegotiation Board to advise us of the action taken in response to our recommendation.

Index No. 71.

B-125071, October 24, 1963

Excessive Costs Included in Prices for FALCON Missile Components Purchased from Avco Corporation, Crosley Division, Cincinnati, Ohio by Hughes Aircraft Company, Culver City, California Under a Negotiated Contract, Department of the Air Force.

We made a review of prices for FALCON missile components purchased from Avco Corporation, Crosley Division, Cincinnati, Ohio, by Hughes Aircraft Company, Culver City, California, under a contract negotiated by the Department of the Air Force.

Our review disclosed that the price negotiated for contract AF 33(600)-37981 was increased by about \$158,110 because it included missile stabilizers and flippers procured by Hughes from Avco at prices based on cost estimates which were excessive in relation to cost data available at the time the prices were established. Hughes accepted those prices without appropriate review and evaluation. As a result of our review, Avco refunded \$136,095 to Hughes and Hughes refunded to the Air Force a total of \$158,110 which included \$22,015, representing Hughes' general and administrative expense and profit applicable to the overstated costs.

Subsequent to the award of the subcontracts described in this report, Public Law 87-653 was enacted by the Congress, effective December 1962, to amend chapter 137, title 10, United States Code. Essentially this law requires prime contractors and subcontractors to submit cost or pricing data in negotiating procurements over \$100,000. It requires further that the cost and pricing data submitted must be certified as accurate, complete, and current. The law also provides that any contract under which such certification is required shall contain a provision that the price to the Government shall be adjusted to exclude any significant sums by which such price was increased because the contractor furnished cost or pricing data that were inaccurate, incomplete, or noncurrent. We believe that the requirement for submission and certification of data, if properly implemented, will assist in preventing recurrences of the deficiencies which occurred in the pricing of the subcontracts described in our report.

Index No. 73

B-118694, October 29, 1963

Use of Former Government Surplus Parts Without Authorization Under Contract DA-23-204-TC-1695 with Aerodex, Inc., Miami, Florida, Department of the Army.

Our review has disclosed that the Government paid Aerodex, Inc., Miami, Florida, an engine overhaul contractor, \$321,854 for a portion of a lot of surplus parts it had purchased from a surplus parts dealer for \$71,858. At least some of these parts were former Government surplus parts and were utilized without the approval of the contracting officer as required by the terms of the contract. The Department of the Army has informed us that, had it been aware of the use of Government surplus parts, the Army would have established a price based upon acquisition cost plus transportation costs.

The Army advised us also that actions had been taken to further review the legal aspects of this case in coordination with the Department of Justice. Pending completion of this review, the following actions have been taken by the Army:

1. Payments on outstanding Aerodex vouchers are being withheld.
2. Pending future developments and possible litigation, no further award will be made to Aerodex, Inc., without prior clearance of the United States Army Materiel Command.
3. All R1820-84A engines, worldwide, are being screened to identify those overhauled under contract DA-23-204-TC-1695. As located, tear down and inspection will be effected to determine whether surplus parts were used. As results are received, such further action as is indicated will be taken.
4. The audit agency of the cognizant service (Department of the Air Force) is being requested to perform a 100 percent audit of all Aerodex contracts with the United States Army Aviation and Surface Materiel Command.

5. The General Accounting Office findings have been furnished the United States Air Force Logistics Command for review and any action deemed appropriate.

We recommended that the Department of Defense, to preclude the recurrence of similar cases in the future, strengthen its procedures to assure that, where contracts contain provision pertaining to the use of surplus parts, such parts are not used without prior approval. We recommended also that all contracts be more specific as to price adjustments to be made in the event that the use of substitute material is subsequently approved.

Index No. 81

B-146823, November 29, 1963

Report on Uneconomical Procurement of Electronic Equipment Under Contract AF 01(601)-31042 With Grumman Aircraft Engineering Corporation, Bethpage, Long Island, New York

Our review disclosed that, although the services were procuring and had the capability to furnish certain types of electronic equipment required for the modification of SA-16 aircraft, the modification contractor, Grumman Aviation Engineering Corporation, was authorized by the Air Force Logistics Command's Mobile Air Materiel Area to procure the needed equipment. The Air Force did not furnish Grumman with pertinent information relative to past, current, and contemplated procurements of this equipment by the military services. Prices obtained by Grumman, which totaled about \$2,300,000, were about \$872,000 or 61 percent higher than prices currently being obtained by the Air Force and the Navy for like equipment. Since Grumman received a profit of about \$278,000 on its purchases of this equipment, the total additional cost to the Government which resulted from the failure of the Air Force to furnish the needed equipment in the most economical manner was about \$1,150,000. In effect, therefore, the cost to the Government was almost doubled.

Following the Air Force decision to have Grumman procure equipment that was already being directly procured by the services, Mobile officials should have seen to it that Grumman was fully advised of and took maximum advantage of the Government's pricing experience concerning this equipment. However, these Mobile officials took no action to furnish Grumman with pertinent information, including current prices, relating to the direct service procurements. Furthermore, Grumman did not act to obtain such information from the services. Also, Air Force and Navy resident officials who were responsible for reviewing and approving purchases at the Grumman plant generally did not attempt to obtain pertinent information relative to the direct military procurements, for use in evaluating the reasonableness of Grumman's prices. For this reason their reviews were not effective.

After this matter was brought to the attention of Headquarters, Air Force Logistics Command, and of Mobile officials, Mobile authorized Grumman to procure like equipment under additional Air Force contracts. When we brought this fact to the attention of officials at Headquarters, Air Force Logistics Command, action was taken by them to suspend Grumman's authorizations under the most recent contract and decision was subsequently reached to furnish much of the needed equipment to Grumman.

The Department of Defense reply to our draft report indicated no disagreement with our view that the subject electronics equipment should have been furnished to Grumman by the Air Force. However, no plan of action was indicated to preclude future unnecessary procurement of major items of equipment by contractors. We therefore recommended that the Secretary of Defense make reviews on a continuing basis at Air Force and other defense procurement centers to assure that the services furnish major equipment to contractors in all instances where it is feasible to do so.

We believe that this case is illustrative of the waste of Government funds which can occur when Government officials are not actively concerned as to the cost of programs which they are administering. In view of the unreasonable nature of the actions taken by the Air Force in this case, especially the award of additional contracts providing for procurement of electronic equipment by Grumman following our initial disclosures of large price disparities between Grumman and Service procurements, we recommended to the Secretary of Defense that the manner in which responsible officials discharged their duties in these instances be considered when making personnel evaluations and management assignments.

Index No. 84

B-146736, December 12, 1963

Report on Overpricing of Modification Kits for Interrogator Sets Under Fixed-Price Contract With General Instrument Corporation, Newark, New Jersey

Our review disclosed that the Government incurred increased costs of about \$143,000 for modification kits for interrogator sets because (1) prices proposed by General Instrument Corporation, Newark, New Jersey, for purchased parts and material under an Army fixed-price contract were based on cost estimates that were higher than justified by the latest cost information available at the time prices were negotiated, (2) the contractor knew, before negotiations for the full quantity under the contract had been completed, that certain less expensive parts might be feasibly substituted, subject to approval by the Government, but did not adjust its price or disclose to the Government the lower costs that would be incurred by such substitutions, and (3) responsible agency officials failed to adequately review the contractor's proposed prices.

Generally the contractor contended that, although it had information prior to submitting its proposals which indicated that lower prices were available for the parts to be used in producing the modification kits, or for substitutes for these parts, there was no assurance that these lower prices would be obtained or that approval for lower price substitute parts would be granted by the Army. However, we could find no evidence that such pricing information was disclosed to the Army negotiators. It seems reasonable that, had all available cost and pricing data been disclosed to and considered by the Army negotiators, there would have been a sound basis for negotiating lower contract prices.

The Deputy Assistant Secretary of the Army concurred with the facts and concluded that the contractor's comments did not satisfactorily explain why the contractor did not (1) make known to the Army contracting officer the lower quotations for substitute parts available to the contractor at the time of negotiations, (2) make all quotations available for analysis, and (3) justify the use of the higher quotations. He stated further that this case was being referred to the Attorney General since the Department of Justice was then reviewing another case involving the same contractor and that no action would be taken by the Department of the Army to seek an equitable price adjustment until the Department of Justice has decided whether it has an interest in the matter being reported herein. We have requested the Secretary of the Army to advise us of the results of the efforts to recover the excess costs from the contractor.

Index No. 85

B-125071, December 16, 1963

Report on Overpricing of Spare Parts Purchased From Hughes Aircraft Company, Culver City, California Under Fixed-Price Incentive Contract AF 33 (600)-38280

Our review of the pricing of spare parts purchased from Hughes Aircraft Company, Culver City, California, under fixed-price incentive contract AF 33 (600)-38280 with the Department of the Air Force, shows that target prices for spare parts negotiated under this contract were increased by about \$736,000 because cost estimates included in the prices were excessive in relation to available cost information. Acceptance by the Air Force of the higher prices resulted from the failure of Hughes to disclose its most current cost information and the failure of resident Air Force contracting officials to adequately examine into the accuracy and currency of the contractor's proposals. Further, we found that the Air Force did not obtain from Hughes certifications that the cost and pricing information used in establishing the target prices was accurate, complete, and current, as required by Department of Defense regulations.

After we discussed our findings with responsible Air Force and Hughes officials, Hughes agreed to reduce the target prices by about \$736,000, which will result in net savings to the Government of about \$201,000.

The Air Force informed us that, since the time of the pricing actions covered by our review, it had been working closely with Hughes to accomplish improvements in Hughes' estimating and pricing procedures. The Air Force cited several areas, including accounting and estimating procedures and the certification of current cost or pricing data, where improvements had been made. The Air Force stated also that steps had been taken to improve the pricing capability of its representative at the Hughes plant and that Air Force procurement personnel had been or were being apprised of the circumstances of this case, in conformity with our suggestions. Although we did not evaluate these actions

in our review of the pricing of spare parts under contract 38280, we plan to consider them in our reviews of more current pricing actions between the Air Force and Hughes.

Index No. 87

B-146833, December 19, 1963

Report on Excessive Price Paid for Propulsion Reduction Gears Purchased from Westinghouse Electric Corporation, Sunnyvale, California

We examined the price paid by the Department of the Navy for propulsion reduction gears purchased from Westinghouse Electric Corporation, Sunnyvale, California.

Our review disclosed that the price of \$507,500 negotiated for gears for an amphibious transport dock vessel included about \$64,900 to cover rework costs. At the time this price was negotiated, Westinghouse had information that it had successfully completed production of identical gears for the Navy under an earlier contract and that no rework had been required. Although the fact that Westinghouse had successfully produced identical gears without having to perform rework would have been of material importance in these price negotiations, Westinghouse did not advise the Navy of this fact. Had Westinghouse done so, the Navy would have been in a sound position to obtain a price about \$64,900 lower than that negotiated.

Westinghouse has indicated that it does not agree with our findings. The Navy, however, advised us that, if it had known that the gears ordered under the earlier contract had been satisfactorily completed, tested, and shipped and that rework costs were not necessary, a different and better evaluation could have been made of the cost of producing such gears. Inasmuch as Westinghouse failed to make known the status of the testing of the gears, the Navy concluded that a refund from Westinghouse would be appropriate.

It seems apparent that, by failing to disclose information to the Navy negotiators as to the status of its gear tests under the prior contract, Westinghouse obtained a price on the procurement of the subsequent gears that was about \$64,900 higher than was warranted. Accordingly, we recommended that action be taken by the Department of the Navy to obtain proper recovery from the Westinghouse Electric Corporation.

Also, it is evident that the Navy negotiators did not use the degree of care that was warranted in appraising the reasonableness of Westinghouse's proposed price, since they neither obtained an analysis of the provision for rework costs and the basis for that provision nor inquired into the status of completion of the gears being produced under the earlier contract. We therefore believe that this case demonstrates the need for a greater sense of individual responsibility in evaluating significant matters affecting the pricing of Government contracts. We believe also that the manner in which persons responsible for evaluating and resolving such matters have discharged this responsibility should be considered in appraising personnel performance for promotion, demotion, and reassignment.

Index No. 92

B-114808, December 30, 1963

Report on Overestimated Costs Included in Prices Negotiated for Modification of Aircraft Engine Test Stands Under Fixed-Price Contracts with Space Corporation, Dallas, Texas

Our review disclosed that the Government has incurred increased costs of about \$213,000 under Air Force fixed-price contracts AF 09(603)-33888 and AF 01(601)-33690 with Space Corporation, Dallas, Texas, because the prices negotiated for the modification of 32 jet engine test stands included (1) costs in excess of prices which Space had already established with its suppliers, (2) costs for certain parts which were duplicates or substitutes for parts already required for production of the test stands under contract AF 09(603)-33888, and (3) costs for parts not required. Modification of 19 of the test stands was accomplished under a supplemental agreement to the advertised contract for procurement of the 32 test stands. A separate fixed-price contract was negotiated with Space for the modification of the other 13 test stands. As a result of the modification work and other changes, the unit price of \$41,936, established through formal advertising procedures, was increased to an average of \$90,014 per unit.

In connection with its price proposals for modification of the test stands, Space certified that all actual or estimated costs or pricing data had been considered and made known to the contracting officer or his representative for use in evaluating the estimates. We found, however, that Space had established lower prices with its suppliers prior to negotiations but did not disclose this information to the Air Force. In addition, Air Force contracting officials did not perform sufficient review of the contractor's proposals to disclose that Space had erroneously included in its proposals the costs for parts which it was obligated to furnish under the basic contract and the costs for parts not required in the modifications.

Space advised us that its contracting officials unknowingly underestimated, or failed to include altogether, the costs of many parts and much labor known to be necessary at the time by Space's engineers and purchasing agents, and for which Space was entitled to be paid and presumably would have been paid if it had included them in its cost proposals at the time of negotiations. We evaluated this statement, with the assistance of Air Force engineering personnel, in light of supporting evidence furnished to us by the contractor. This evaluation showed that, while the contractor incurred some costs for parts and labor omitted from its proposals, the major portion of these omissions pertained to parts which Space was already required to furnish and parts substituted for similar parts required prior to the time of the modifications. In arriving at the excess cost of \$213,000, appropriate credit was allowed for costs which the contractor omitted from its proposals.

We met with representatives of Space Corporation to afford them a further opportunity to reply to our findings. These officials maintained that parts required under the basic contracts were not duplicated either in the proposals for modifications or the claimed underestimate of \$119,163.

Following this meeting we reviewed with Air Force engineering personnel the findings questioned by Space and concluded that our position was substantially correct as originally stated.

The inclusion of overestimated costs in the contractor's pricing proposals constituted an incorrect statement of the costs for the test stands. This incorrect statement, represented to be current pricing data certified by Space, was used in negotiations and resulted in the increased costs to the Government. Therefore, we recommended that the Air Force take all available and appropriate action to obtain proper recovery from Space Corporation.

Index No. 93

B-146035, December 31, 1963

Report on Erroneous Purchase of a Technical Data Package from Westinghouse Electric Corporation for \$1,010,000

We reviewed the erroneous purchase of a technical data package from Westinghouse Electric Corporation for \$1,010,000 by the Department of the Navy. The contract for the technical data package was entered into by the Navy to transfer technical information from Westinghouse—which was discontinuing work on its Government-financed J34 military gas turbine engine program—to the Pratt & Whitney Aircraft Division of United Aircraft Corporation, which would provide the Navy with spare parts support for this engine in the future.

The Navy contracted to pay Westinghouse \$1,010,000 for a technical data package under contract NOW 61-0171-f although under prior contracts it had already acquired unlimited rights to use all the significant data included in the data package. The Navy bought the technical data package apparently on the assumption that it did not have the legal rights to the use of these data when, in fact, it did have such rights. Consequently, no consideration was received by the Navy for the price established under the contract, inasmuch as the actual costs of reproducing, assembling, packaging, and delivering the tangible items comprising the data package were reimbursed by the Navy to Westinghouse under other contracts.

Since the Navy had received no consideration under contract NOW 61-0171-f, we issued a notice of exception against the disbursing officer. The notice took exception to payments already made to Westinghouse in the amount of \$655,000, and we advised the Navy to withhold payment of the unpaid balance of \$355,000.

In responding to the action we had taken on this matter, the Navy and Westinghouse stated that Westinghouse had furnished certain technical assistance in connection with the transfer of spare parts support from Westinghouse to Pratt & Whitney and indicated that they believed that this technical assistance supported the contract price. However, contract NOW 61-0171-f cannot be justified

on the basis that technical assistance was furnished by Westinghouse since such assistance was not provided for in the contract. The contract provided for delivery of a technical data package—tangible, recorded information—directly to the Navy. The technical assistance was intangible, unrecorded information verbally conveyed by Westinghouse engineers directly to Pratt & Whitney engineers and the actual costs of transferring this information were reimbursed by the Navy under other contracts. Furthermore, Pratt & Whitney indicated to us that the recorded information contained in the package, in the hands of a competent and qualified jet engine manufacturer, should be sufficient for manufacturing purposes without the need for technical assistance. Accordingly, this Office is taking appropriate action to recover the \$655,000 already paid by the Navy to Westinghouse and is directing the Navy not to make the final payment of \$355,000.

To provide reasonable assurance that this situation will not recur, we recommended that the Secretary of Defense direct that, prior to the purchase of data and other recorded technical information, the military departments determine whether the data and information are essential and, if so, whether the Government had previously acquired the data and information or the right of access to it.

Index No. 94
B-133396, January 10, 1964

Report on Increased Costs Resulting from the Procurement of Spare Parts under Contracts for Related Aeronautical Equipment, Department of the Air Force

We made a review of the increased costs resulting from the procurement of spare parts by the Air Force under contracts for related aeronautical equipment. Generally, when a new item of equipment is procured, it is considered necessary to procure from the equipment contractor a complete range of spare parts to assure support of the equipment for an initial operating period, usually one year. However, where spare parts required for the initial support of equipment are of the type already in the supply system, procurement directly from manufacturers or suppliers instead of the equipment contractor is generally feasible and is the most economical method.

The Government has incurred unnecessary costs estimated at \$18,700,000 during the years 1959 through 1961 because the Air Force procured spare parts, costing about \$50,800,000, under contracts for related equipment although the parts could have been procured under spare parts contracts, generally from other suppliers, for about \$32,100,000. These parts were of the type that had been procured previously by the Air Force, either under parts contracts or under earlier equipment contracts, and additional parts needed could have been obtained under parts contracts at substantially lower costs.

Also, we found that parts, costing about \$300,000, were procured under equipment contracts although such parts had previously been declared obsolete or had been superseded by new or improved items.

We believe that the Air Force has not placed sufficient continuing emphasis on improving its immediate capability to identify parts which have been procured previously so that they can be removed from initial spare parts lists prior to release of the lists to equipment contractors, that operating personnel have not been adequately indoctrinated in the benefits to be derived by the Government from the procurement of spare parts separately from equipment, and that there has been insufficient review of and control over the performance of operating personnel by supervisory and management levels.

Subsequent to our review the Air Force took actions designed to improve its performance in this area. We believe that these actions, if properly carried out, should result in substantial savings through decreased procurements of parts under equipment contracts. We plan to evaluate the effectiveness of these actions in our subsequent reviews. However, we recommend that the Department of Defense review the effectiveness of these actions in the Air Force and also determine whether the deficiencies cited in this report exist in the other military services.

Index No. 95
B-146780, January 13, 1964

Report on Improper Disposition of Refunds of Group Insurance Premiums by Grumman Aircraft Engineering Corporation, Bethpage, New York

We made a review of the disposition of refunds of group insurance premiums by Grumman Aircraft Engineering Corporation, Bethpage, New York. These

refunds are applicable to contracts for which the Department of the Navy has primary audit responsibility under existing administrative practices.

Our review disclosed that Grumman did not give the Government adequate credit for a portion of refunds of group insurance premiums totaling about \$1,256,000 that had accumulated over the 10-year period ended June 30, 1963. According to Grumman's group insurance plan, its employees were to pay a specific amount of the premium cost, which amount changed only when there was a change in the coverage provided. Grumman, on the other hand, was to pay the balance of the premium cost, thereby assuming all the risk involved in premium cost fluctuations. It seems reasonable that, under such an agreement, all insurance refunds should have been applied to reduce the insurance payments made by Grumman, which in turn would have reduced the costs charged to Government contracts. Grumman, however, divided the refunds into employees' and employer's shares in proportion to premiums paid by each. Except for \$28,000 distributed in 1951, the portion of the refunds which Grumman considered as belonging to employees was not distributed to employees but was held by Grumman for more than 9 years. Since about 90 percent of Grumman's work was on Government contracts, predominantly for the Department of the Navy, the majority of the refunds would have accrued to the benefit of the Government.

After we brought our findings to its attention, Grumman distributed \$421,000 of these refunds to its current employees by discontinuing employees' payroll deductions and made adjustments totaling \$28,000 for the distributions it had made in 1951 but had not previously deducted from refunds of group insurance premiums. Also, Grumman changed its insurance plan effective March 18, 1963, to provide that thereafter Grumman would pay the entire cost of the premiums, and deductions from employees were discontinued. The change in plan will increase Grumman's cost. At the date of our review it had not been determined whether the Government will allow this additional cost as a charge to Government contracts.

In addition, Grumman took action to reduce overhead costs of 1963 by the \$807,000 of premium refunds that remained in the special account. Grumman did not, however, take action to return to the account the \$449,000 it had previously disbursed by discontinuing employees' payroll deductions.

We recommended that the Navy take action to recover the Government's share of the premium refunds totaling \$449,000 which Grumman disbursed and that the Navy determine whether Grumman has given the Government its proper share of the \$807,000. In addition, we recommended that the Navy inquire into the disposition of refunds prior to the period of our review to determine whether the Government received proper credit for such refunds. Also, we recommended that the Navy carefully study and analyze the wage rates and employees' fringe benefits of other employers in the New York area before agreeing to the extent to which Grumman will be reimbursed for insurance premium costs under the new plan.

Further, it seems evident that the treatment to be afforded such refunds should be agreed upon by the contractor and the Navy before contracts are awarded, as required by Navy procurement directives. Accordingly, we recommended that the Navy bring this report to the attention of appropriate Navy administrative personnel to demonstrate the need for proper advance approval of such plans.

Index No. 96

B-133369, January 14, 1964

Report on Pricing of Selected Spare Parts for ARC-34 Communication Equipment Under Air Force Fixed-Price Contracts Negotiated With the Magnavox Company, Fort Wayne, Indiana

In January 1962 we reported to the Congress overpricing in excess of 1 million dollars by The Magnavox Company, Fort Wayne, Indiana, for certain electronic spare parts furnished to the Department of the Air Force under sole-source procurements (B-133369). The report was referred to the Department of Justice to obtain appropriate recovery for the Government, and we are now informing you of the further action taken in the matter.

Our report to the Congress showed that the prices Magnavox negotiated with the Air Force for spare parts were based on proposals certified as being accurate to the best of the company's knowledge and belief. These proposals, however, indicated Magnavox's intent to buy the spare parts from one of its suppliers, whereas the company had already embarked on an extensive program to manu-

facture the items in-plant at substantially less cost. In addition, the supplier's prices included in Magnavox's price proposals were higher than those offered by the supplier and known to Magnavox at the time of its proposals.

In June of 1962 we forwarded two additional cases to the Department of Justice also involving overpricing of spare parts under the same Air Force contracts. In the first case we found that Magnavox had submitted excessive estimates of costs for packaging the spare parts. The excessive estimates were accomplished by (1) increasing prices of material by 2 to 11 times the amounts indicated by the Magnavox Purchasing Department, (2) tripling unit labor costs estimated by the Magnavox Industrial Engineering Department, and (3) 118 incorrect computations, all of which favored the Magnavox Company. In the second case we found that Magnavox had priced electronic tubes at amounts higher than the manufacturers were then charging the company for these tubes. These additional findings increased the overpricing of spare parts under the Magnavox contracts referred to in our report to about \$1,485,000.

After the Department of Justice had considered these cases, Magnavox, when faced with a suit in Federal court, finally agreed to a settlement of \$1,150,000.

By letter dated September 23, 1963, the Department of Justice referred this proposed settlement to us for our recommendations. We informed the Department that our Office was not in a position to judge the chances of the Government's successfully prosecuting a court case for the full amount of the identified overpricing or for any additional amounts that may be due under the double damage and penalty provisions of the False Claims Statute (31 U.S.C. 231). Also, it was our understanding that the statute of limitations applicable to the collection of double damages had expired on a substantial number of the contract items. We stated therefore that, if the Department of Justice felt that acceptance of the offer of \$1,150,000 was in the best interests of the Government, we would interpose no objection.

In a letter dated December 18, 1963, the Department of Justice advised us that it had received a check in the amount of \$1,150,000 from The Magnavox Company, payable to the Treasurer of the United States. The check was accepted by the Department of Justice in full settlement of the Government's claim against the contractor.

Index No. 99

B-146836, January 24, 1964

Report on Unnecessary Cost Incurred in the Procurement of AN/ARN 21C TACAN Radio Components Through Failure to Accept Option Offer

Our review disclosed that the Air Force incurred unnecessary costs of over \$1 million by its failure to incorporate into a contract an option offered by the supplier of TACAN radio components to furnish additional quantities of components at the original contract prices. The requirements for the components were ultimately met by competitive procurement at substantially higher prices.

Air Force procurement officials could not adequately justify the omission of the option from the contract except to refer to a procedural requirement that made inclusion of an option clause contingent upon a prior determination and finding by the Secretary of the Air Force authorizing negotiation of the procurement. We have been advised by the Air Force that a summary of the procurement action covered in this report will be published for distribution to procurement officials.

We recommended to the Secretary of Defense that he issue formal instructions to the military departments to provide that, in the event it is determined that the terms of an option offered by a contractor are favorable to the Government, the option be incorporated into the contract without need for a formal determination and finding. Such instructions should call attention to the nonbinding nature of the option clause and should emphasize that procurement officials are not thereby relieved of responsibility for ascertaining, through seeking competition or through other appropriate means, whether any proposed exercise of the option is in the best interests of the Government.

Index No. 102

B-133295, January 31, 1964

Report on Excessive Charges for Components for M60 Tanks under Contract with Chrysler Corporation, Detroit, Michigan

Our review disclosed that the revised final contract price for M60 tanks under Department of the Army contract with Chrysler Corporation, Detroit, Michigan,

contained duplicate and excessive costs which increased the contract price by about \$315,200 for components made at certain of the contractor's plants. Summary cost data submitted by the contractor as a basis for negotiating the final contract price were prepared after all tanks were produced and therefore the contractor should have been aware of the costs incurred for these components. The procuring agency (1) failed to obtain from the contractor a certification that the summary cost data were current, complete, and accurate, despite the requirement in the contract for such a certificate and (2) accepted the summary cost data without an adequate review. After we brought this matter to the attention of procurement officials they recovered the \$315,200 from the contractor.

The Deputy Assistant Secretary of the Army for Logistics, in commenting on our proposal that our report be brought to the attention of procurement officials, stated that the manner in which details supporting price proposals were reviewed in this case was not indicative of a pattern which could warrant a restatement of existing policy guidance. His conclusion is based upon the fact that there is considerable regulatory and instructional material already in existence on contract pricing. We believe, however, that our report should be brought to the attention of appropriate personnel in the Department of Defense in order to emphasize the importance of existing regulations by illustrating what can happen when they are not followed, such as incurring excessive charges by relying on data submitted by contractors without adequately reviewing the supporting details. Further, since Department of Defense regulations were in existence at the time of negotiations to the effect that cost data be obtained and verified, we believe that consideration should be given to the need for appropriate disciplinary action because of the failure to obtain current and complete cost information and the required certification in this case.

Index No. 103

B-146843, January 31, 1964

Report on Increased Costs Incurred for Ammonium Perchlorate Purchased During 1961 for Solid-Propellant Missile Motors, Department of the Air Force

The Government incurred increased costs, which we estimate amounted to about \$500,000 in 1961, in procuring its requirements of ammonium perchlorate for solid-propellant missile motors because the prices paid by Air Force contractors generally were higher than the prices paid by the Navy under contracts negotiated directly with one of the principal suppliers. During the period of our review, the Bureau of Naval Weapons negotiated prices with one of the principal suppliers, independently of other agencies and contractors, and obtained lower prices than Air Force contractors obtained from the same supplier for comparable materials.

It does not seem reasonable that a Government agency should permit its contractors to pay higher prices to suppliers for material than the Government has to pay for comparable material when dealing directly with a supplier.

Recent actions taken by the Department of Defense to promote the exchange of information by military departments of purchasing activities should provide more effective bases for the negotiation of fair and reasonable prices. However, the current instructions seem to place most of the responsibility upon the purchasing or approving activities for requesting such information from other purchasing activities. We believe that the potential effectiveness of the exchange of procurement information will not be fully realized unless essential pricing data are obtained at the suppliers' locations; agency personnel who now are responsible for directly maintaining the Government's relationships with the suppliers should be used.

We recommended, therefore, that the Secretary of Defense take action to require Department of Defense personnel having responsibilities for the administration or surveillance of prime contracts or subcontracts (1) to review periodically items sold for the Government's use, (2) to identify identical or comparable items sold at varying prices, and (3) to report significant variations in prices to the appropriate purchasing activities for consideration in future procurements or for obtaining price adjustments on past procurements if the circumstances warrant such action.

Index No. 104

B-146733, January 31, 1964

Report on Overpricing of Ship Propulsion Boilers Purchased under Fixed-price Contract Nobs-76301 Negotiated with Foster Wheeler Corporation, New York, N.Y.

Our review disclosed that the price that the Bureau of Ships negotiated with Foster Wheeler Corporation, New York, New York, for ship propulsion boilers, amounting to \$1,722,300, was at least \$132,200 greater than the costs Foster Wheeler could reasonably expect to incur plus profit at the rate of 10 percent of such costs, the rate Foster Wheeler included in its price proposal. The price was based upon a price proposal submitted by Foster Wheeler which was overstated in relation to its detailed estimate of the cost of manufacturing these boilers and to prior cost data which were available to Foster Wheeler but not disclosed to the Bureau. Despite the fact that the cost portion of its price proposal exceeded its detailed cost estimate and prior cost data, Foster Wheeler certified that the cost data included in the price proposal were based upon its books and records. Moreover, the Navy advised us that, during negotiation of the contract price, Foster Wheeler made incorrect representations to the Bureau concerning costs incurred under an earlier contract for boilers. The Bureau was unaware that Foster Wheeler's price proposal provided for costs in excess of the costs that Foster Wheeler could have reasonably expected to incur and that the representations relating to the earlier contract were incorrect, since it did not review Foster Wheeler's detailed cost estimate or prior cost data. Had the Bureau made such a review, it would have been in a sound position to negotiate a reduction of at least \$132,200 in the price of the boilers.

We brought our findings to the attention of Foster Wheeler and the Navy. We proposed to the Navy that action be taken to obtain appropriate recovery from Foster Wheeler and that its recovery action be coordinated with the Department of Justice. The Navy advised that, after being apprised of our findings, it determined that the representations made by Foster Wheeler during negotiation of contract NObs-76301 and upon which the Navy relied were not correct and that it would, therefore, take appropriate recovery action as we suggested.

In its comments, Foster Wheeler advised that it did not agree with our findings. However, Foster Wheeler presented no information to justify its proposing a price for the contract that was greater than indicated to be warranted by its books and records or to excuse it for making misrepresentations of material facts in its proposal and during negotiation of the contract price.

Index No. 107

B-146733, February 6, 1964

Report on Overpricing of Nuclear Reactor Components Purchased from Westinghouse Electric Corporation, Pittsburgh, Pennsylvania, Under Cost-Plus-A-Fixed-Fee Contracts Awarded by the Bureau of Ships

Our review disclosed that the Plant Apparatus Division of Westinghouse Electric Corporation, Pittsburgh, Pennsylvania, under Navy cost-plus-a-fixed-fee contracts, awarded a subcontract for 35 pumps and 16 casings to a manufacturing division of Westinghouse at a price of \$3,961,460 without obtaining the manufacturing division's estimated cost of performance under the subcontract being awarded or information as to costs actually incurred in the prior production of similar components. Cost estimates prepared by the manufacturing division before the subcontract award indicate that a price of about \$3,256,000, or \$705,000 lower than the price accepted, would have covered costs and afforded a profit at the 10 percent rate that Westinghouse usually represented as being included in its price for these items. These cost estimates seemed reasonable when compared with cost data on a prior order that was also available to the manufacturing division of Westinghouse at the time of negotiation. The Navy approved the award without requiring Westinghouse to furnish its cost estimates or prior cost data. If the Navy had obtained the information before approving this subcontract award, it would have been in a sound position to obtain a lower price.

Westinghouse asserts that our findings are unwarranted while the Navy concurred with our findings and stated that, in consenting to the placement of the subcontract with the Atomic Equipment Division, it had relied upon price proposals obtained by the Plant Apparatus Division, the recommendation of the

Plant Apparatus Division, and comparison of the price with prices established in prior procurements. In addition, the Navy indicated that reliance was placed upon breakdowns of estimated costs submitted by the Atomic Equipment Division which appeared to substantiate the reasonableness of prices obtained on prior procurements. The Navy stated, however, that subsequent audit work, together with other information, revealed facts that show that the price of the subcontract was not reasonable.

The cost-plus-a-fixed-fee contracts 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 division of its own corporation, without considering available cost estimates, Westinghouse did not exercise the degree of care that was warranted by its contractual relationship with the Government. Moreover, the breakdowns of estimated cost and profit submitted by the Atomic Equipment Division for prior orders, which represented costs higher than the record indicates that Westinghouse expected to incur, served to conceal the actual costs involved in the manufacture of the pumps and casings and appears to have misled the Navy as to the reasonableness of bid prices for these components. The Government is entitled to recover from Westinghouse on these bases.

The Navy advised us, in accordance with our proposals, that it would take appropriate action, in coordination with the Department of Justice, to effect adjustment or recovery from Westinghouse Electric Corporation. We were advised also that, pending such settlement, the Navy had withheld sufficient funds from Westinghouse to protect the Government's interest. We asked that the Navy and the Department of Justice advise us of the proposed settlement before final action is taken on this matter.

Index No. 109

B-118695, February 7, 1964

Report on Overpricing of B-58 Aircraft Bomber Recording Systems by Melpar, Inc., Falls Church, Virginia on Fixed-Price Purchase Order 509 With General Dynamics Corporation, Fort Worth, Texas

We reviewed the pricing of B-58 aircraft bomber recording systems by Melpar, Inc., Falls Church, Virginia, on fixed-price purchase order 509 with General Dynamics Corporation, Fort Worth, Texas, under Department of the Air Force prime contract AF 33(600)—41891.

Our report showed that a firm price was negotiated by General Dynamics and Melpar, and approved by the Air Force, for the production of bomber recording systems under purchase order 509 in the absence of certain data and without consideration of other cost and pricing data available. As of September 1, 1963, Melpar's price exceeded incurred costs by about \$821,200, or 41 percent, as shown by the subcontractor's records, and it appears that a significant portion of this amount was attributable more to the negotiation of a price based on overstated cost estimates than to Melpar's efficiency in performance.

Melpar certified to the effect that it had considered current, complete, and correct cost or pricing data in preparing its proposal and had disclosed all available significant cost and pricing data to both General Dynamics and the Air Force. However, our review disclosed that, although Melpar represented that its labor cost estimate of \$981,830 was based on information on costs previously experienced, the subcontractor could not show how previously experienced labor costs were considered in developing departmental labor cost estimates of \$758,290 or furnish any support for the \$223,540 increase to the departmental estimates. Our review also disclosed that Melpar's cost estimates for material were overstated in relation to current cost or pricing information available to the subcontractor prior to negotiations.

The Air Force and General Dynamics have advised us that a detailed audit is being performed on purchase order 509 and prior orders for the production of bomber recording systems. The Air Force also has advised us that we will be informed of the results of the examination and the related price adjustments. In view of the actions that are being taken, we plan no further action on this matter pending advice from the Air Force on the results of negotiations with General Dynamics and Melpar.

To provide safeguards for the Government against inflated costs estimates in establishing prices under negotiated contracts, chapter 137, title 10, United States Code—formerly the Armed Services Procurement Act of 1947—was

amended by the Congress under Public Law 87-653, effective December 1, 1962. To implement this amendment, the Armed Services Procurement Regulation was revised to furnish additional guidance to Government contracting officials and to place increased emphasis on the review and evaluation of cost and pricing data furnished by contractors in support of proposed prices under negotiated procurements. In addition, the Regulation was also revised to place increased emphasis on the review and approval of subcontracts by Government contracting officials. We believe that the current instructions should contribute significantly to the negotiation of fair and reasonable subcontract prices. However, the effectiveness of these instructions will depend upon the manner in which they are followed by contracting officials.

We believe that, in following these instructions agency contracting officials should review the subcontract price negotiations and supporting data to assure themselves before subcontract prices are approved that the cost and pricing data used to develop the firm prices are realistic in relation to prior experience and are adequate to support the probable cost of future production. In the absence of meaningful data, agency contracting officials should withhold approval of firm prices and require contractors to include provisions for price revision in their subcontracts and to revise the prices when realistic cost and pricing data become available.

Therefore, we recommended to the Secretary of Defense that, where meaningful data are not available for the development of realistic cost estimates or where other evidence is not available to support the reasonableness of the proposed prices, prime contractors be required to include provisions for price revision in their subcontracts. We recommended also that contracting officials be instructed to withhold approval of firm subcontract prices until these criteria are met.

Index No. 111

B-146760, February 12, 1964

Report on Overpricing of Nuclear Submarine Components Purchased by Plant Apparatus Division, Westinghouse Electric Corporation under two Subcontracts Awarded to Edwin L. Wiegand Company, Pittsburgh, Pennsylvania

The Plant Apparatus Division, Westinghouse Electric Corporation, acting as prime contractor for the Navy, awarded two subcontracts to the Edwin L. Wiegand Company, Pittsburgh, Pennsylvania, for 5,664 S5W pressurizer heaters and heater terminal connectors on a negotiated basis for about \$671,000. We found that the Navy paid about (1) \$234,000 more than was warranted for these items because subcontract prices were negotiated without obtaining and analyzing Wiegand's most recent experienced costs and (2) \$46,000 more than was warranted for heater terminal connectors because they were purchased from Wiegand at substantially higher prices than the Plant Apparatus Division would have paid to other suppliers. Further, when the Plant Apparatus Division ordered 1,788 of these units, Wiegand furnished its experienced costs under an earlier subcontract and certified that these costs were accurate. Our review indicated that, despite its certification, Wiegand's actual costs on the earlier subcontract were substantially lower than those certified to be accurate. Had the Navy or the Plant Apparatus Division obtained and analyzed Wiegand's prior experienced costs before approving the subcontract awards, either one or both of them would have been in a sound position to negotiate a reduction of about \$280,000 in the subcontract prices.

Wiegand has advised us that the difference between the results of our mathematical audit and what Wiegand believes to be its costs resulted from the fact that it does not have a job cost accounting system. Because of this, Wiegand contends, there are many unforeseen expenses which do not show up when costs are computed on the basis of a materials list and on production processes. However, since Wiegand did not furnish us any factual material we had not previously considered, we see no basis for altering our conclusion that Wiegand's experienced costs were substantially below the costs it had proposed to Westinghouse and which Westinghouse had accepted.

Comments from Westinghouse Electric Corporation were not received in sufficient time to incorporate them into our report; however, Westinghouse did not furnish any information not previously considered in the preparation of the report.

The Navy advised us that it concurred generally with our observation that it did not seem reasonable that the Government should incur excess costs and the

subcontractor or prime contractor benefit by the amount thereof because subcontracts were awarded without due consideration by the prime contractor of available cost experience data. The Navy also stated that the cost to Wiegand of manufacturing the pressurizer heaters, as reflected in recent Navy audit reports, indicated an excessive profit realized by Wiegand of about \$40 to \$50 a unit. However, the Navy stated that it had requested the Auditor General of the Navy to make another audit of Wiegand's costs and that, upon receipt of this audit information, it would be in a position to comment upon the extent of Wiegand's excessive profits, if any. In addition, the Navy had previously advised us of measures taken by the Plant Apparatus Division to assure protection of the Government's interests in future purchases of equipment for nuclear submarines.

It appeared in these cases that Wiegand's price proposals formed the basis for negotiating prices about \$280,000 higher than would have been reasonably established if Wiegand's most recent cost data had been used. Moreover, this case also points out that a price certification is not an acceptable substitute for a detailed verification of contractors' costs in instances where the contractors' records have not previously been examined.

Accordingly, we recommended that the Secretary of the Navy maintain close surveillance over the contracting practices of the Plant Apparatus Division, with particular emphasis on the measures recently adopted by the Plant Apparatus Division to assure protection of the Government's interests. In addition, we referred copies of our 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 action to obtain proper recovery and take such other action as may be appropriate.

Index No. 117

B-146846, February 19, 1964

Report on Overpayments Made Under a Cost-Plus-a-Fixed-Fee Contract for the Procurement of Nuclear Submarine Components from Combustion Engineering, Inc., New York, N.Y.

Our review disclosed that the Navy paid Combustion about \$200,000 more than it was entitled to under the provisions of cost-plus-a-fixed-fee contract NOBs-72363. This overpayment occurred because the Navy paid fixed prices for certain components that should have been paid for on a cost-plus-fixed-fee basis.

Under its cost-plus-a-fixed-fee contract with the Navy, Combustion was permitted to purchase certain components from its Chattanooga, Tennessee, plant on a fixed-price basis. When the company submitted the component prices to the Navy, Combustion represented that bids had been solicited from three bidders and that its prices were the lowest. Actually, however, responsive bids had not been received from any other firm. The Navy, evidently relying upon Combustion's representations, accepted the prices proposed by Combustion without reviewing the cost estimates which had been prepared by Combustion in establishing the prices. Had the Navy made a review of these cost estimates, it would have been in a sound position to reduce the fixed prices by about \$126,300.

The contract was subsequently amended retroactively to provide that all payments to Combustion be based on actual costs rather than on fixed prices. The Navy, however, had already paid the fixed prices to Combustion, and until we brought the matter to the Navy's attention it was unaware that the price paid to Combustion was about \$200,000 more than the cost of producing these components.

Combustion has informed us that a mutual mistake was made in revising the contract terms to provide that all payments be based on cost. The Navy, however, does not agree with Combustion and has informed us that it will take action to recover the overpayment. We have since been informed by the Navy that it is withholding \$117,680 from amounts otherwise due Combustion; that it is auditing the contractor's costs; and that, as the audit progresses, it will recover the additional amounts involved.

We plan to issue exceptions against the Navy disbursing officer for the full amount of the overpayments. We will release these exceptions upon notification by the Navy that the full amount has been recovered.

In this case the Navy failed to verify the contractor's representations as to the basis on which its prices were established, did not obtain or use cost data

in evaluating the reasonableness of the contractor's proposed prices, and did not correlate contract terms with payments. We believe that the Navy's failure to perform its functions properly in this case demonstrates a need for greater care on the part of Navy contracting, finance, and auditing officials. Accordingly, we recommended that this case be brought to the attention of these officials to emphasize the need for greater care in such situations.

Index No. 119

B-146813, February 25, 1964

Report on Excessive Interest Expense Included in Price Negotiated for Petroleum Storage under Contract ASP-21801 with New England Tank Industries of New Hampshire, Inc.

Our review disclosed that the Government will incur increased costs of \$253,100 under contract ASP-21801 for petroleum storage in a new commercial facility because interest expense included in the revised 5-year price was excessive in relation to information available to the contractor during negotiations. The contractor had made financial arrangements prior to completion of negotiations under which it would incur less interest expense than was included in the revised price.

By letter dated August 8, 1963, the attorney for New England Tank Industries of New Hampshire, Inc., commented on our findings. Among other things, the attorney indicated that the negotiation and renegotiation of the contract price were favorable to the Government and that the problem of financing the construction of the facility is not crucial to the issues raised in our report. The attorney did not furnish any additional information, however, to disprove our finding that excessive interest expense was included in the price negotiated by the Department of Defense under the contract with New England Tank Industries of New Hampshire, Inc.

On May 21, 1963, the Director, Defense Supply Agency, in commenting on our findings, informed us that the Department of Defense concurred in our conclusions and our proposal that every effort be made to obtain an appropriate price reduction for the excessive interest included in the contract price. He advised that action had been initiated by the Defense Petroleum Supply Center to effect recovery from the contractor. We requested that the Defense Supply Agency advise us of the result of this action. He advised further that the need for obtaining adequate and complete cost and pricing data during all phases of contract negotiations was being reemphasized to all Defense Supply Agency supply centers to preclude recurrence of the deficiencies disclosed in this report.

After the negotiation of contract ASP-21801, Department of Defense regulations had been changed on the basis of legislation enacted in September 1962 to provide for more effective price negotiation. Compliance by the Defense Petroleum Supply Center with these regulations should result in more effective price negotiation and eliminate instances of increased costs to the Government as described in our report.

DEVELOPMENT AND PROCUREMENT OF NEW TYPES OF EQUIPMENT AND SYSTEMS

Index No. 1

B-146774, March 12, 1963

Report on Examination of Unnecessary Costs Incurred by the Department of the Navy in the Procurement of Airborne Early Warning Search Radars

Our review disclosed that the Government incurred unnecessary costs of \$367,00 because the Bureau of Aeronautics (now Bureau of Naval Weapons) ordered the AN/APS-82 radar built to operate in an unauthorized frequency band that subsequently had to be changed. The Bureau specified the use of a frequency band without obtaining approval for the use of this band from the Director of Naval Communications as required by Navy instructions. The frequency band specified by the Bureau was overcrowded at the time the contract was awarded and, had approval been requested, there appears to be little doubt that its use would not have been authorized. Furthermore, after only 23 percent of the radars had been ordered, the Director of Naval Communications put the Bureau on notice that this frequency band was overcrowded. However, action was not taken to change the band until more than a year later. By that time the Navy considered it necessary to incur much of the cost of building the remaining radars to operate in the same overcrowded frequency band to avoid de-

lays in production. Thus, the frequency band of these radars had to be changed during fiscal years 1960 and 1961, after production was completed, with resulting unnecessary costs.

The Navy agreed that unnecessary costs were incurred in this case and advised us that measures have been taken to insure that a frequency band application is submitted for approval to the Director of Naval Communications prior to initiating development and procurement of any electronic equipment requiring a radio frequency band. The Navy informed us also that our findings in this case were being brought to the attention of the individuals in the Navy who are responsible for the development and procurement of electronic equipment in order that recurrences may be avoided.

The measures taken by the Department of the Navy subsequent to this procurement appear to represent an improvement in procedures. However, these measures continue to rely upon the assurance of the originating Bureau that the necessary approval has been obtained. To provide additional safeguards against further unnecessary expenditures of this type, we recommended that the Navy revise its instructions to provide that the Office of Naval Material be in possession of written approval by the Director of Naval Communications before it approves any contracts for electronic equipment using frequency bands. We also recommended that the Secretary of the Navy direct that, concurrently with the issuance of all instructions, Navy organizations establish the management controls and check points necessary to provide assurance that their instructions will be properly carried out.

Index No. 24
B-146793, May 29, 1963

Report on Unnecessary Costs Incurred Because of Delay of the Army in Equipping M151 Utility Trucks with Necessary Fixtures to Facilitate Use in Airborne Operations

Our review disclosed that unnecessary costs estimated at about \$405,000 were incurred to modify M151 utility trucks with certain fixtures to facilitate air delivery of the vehicles because of the failure of the Army to assure that the desired fixtures would be included on the vehicles at the time of production. This failure occurred despite the fact that (1) during the 10-year period that the M151 vehicle has been under development, the principal military characteristic required with respect to transportability was that it could be air dropped by parachute and externally transported by helicopter and (2) the Army had a similar experience with another vehicle about a year prior to award of the initial M151 production contract.

The Department of the Army, in commenting on our finding, stated that it acted appropriately in this case. Our review disclosed, however, that the Army's failure to incorporate the necessary fixtures initially into production vehicles was due to its indecision as to the means of facilitating air delivery of the vehicles.

The Army advised us of a number of actions taken within the last 2 years to improve controls over the introduction of new vehicles. However, since the primary action cited by the Army as increasing the effectiveness of controls, namely, the initiation of project reviews at designated critical action or decision points, was actually in effect before production of the M151 began, we believe that further actions are required. Accordingly, we recommended that the Secretary of the Army specifically require project managers to evaluate the design of new equipment to determine whether it meets the required military characteristics. If it does not, the decision to produce equipment with identified shortcomings should be adequately justified.

Index No. 55
B-146774, August 26, 1963

Report on Unnecessary Costs Incurred in the Procurement of Radar Altimeters, Department of the Navy

Our review disclosed that the Government incurred unnecessary costs of about \$1,100,000 because the AN/APN-120 radar altimeter was built to operate in an unauthorized frequency band and the altimeters therefore could not be used for operational purposes. The Bureau of Aeronautics (now Bureau of Naval Weapons), the procurement agency for the Government in this case, did not obtain approved frequency bands for the AN/APN-120 radar altimeter prior to initiating its development despite written instructions from higher Navy echelons

requiring that such approval be obtained. Instead, the Bureau simply left selection of the frequency bands to the discretion of the manufacturer.

When development of the altimeter was well underway, the Bureau found that it had failed to secure authorized frequency bands and attempted to obtain proper approval of the bands selected by the manufacturer. The Director, Naval Communications, who was responsible for assigning frequency bands, informed the Bureau that the frequency band for the low altitude portion of the altimeter could not be used on a permanent basis and would have to be changed. The change in frequency band made it necessary to completely redesign the altimeter.

Despite the fact that use of the frequency band was not granted on a permanent basis, the Bureau allowed development of the altimeter to continue and even ordered production of additional units using the unauthorized band on the basis that these units would be needed to test the aircraft on which the altimeters were to be used. However, the aircraft manufacturer considered it impractical to test the aircraft with this altimeter since it was substantially different from the redesigned altimeter that was ultimately to be used. Therefore the altimeters with the unauthorized band were of no value in evaluating the aircraft. Had the Bureau obtained approval of the frequency bands prior to initiating development of the altimeter, the entire unnecessary cost of \$1,100,000 would have been avoided; had further work been stopped when it was learned that the low altitude band could not be permanently used, half that amount would have been saved.

The Navy agreed that the failure to obtain an approved frequency band resulted in unnecessary cost to the Government and advised us that appropriate action would be taken by the Navy to provide adequate control to prevent recurrence of the situation described in our report. Specifically, the Navy stated that the Chief of Naval Material would require that, prior to initiating procurement of electronic equipment, all procuring activities submit to the Office of Naval Material an approved radio frequency allocation granted by the Director, Naval Communications. The Navy also advised that the findings in this case would be brought to the attention of individuals responsible for making decisions for the development and procurement of electronic equipment.

We recommended to the Secretary of Defense that the Department of Defense evaluate the control procedures of the Army and the Air Force to determine whether these procedures provide the control necessary to prevent unnecessary costs resulting from development and production of electronic equipment using unauthorized frequency bands. Also, we asked the Secretary of Defense to advise us of the action taken with regard to this recommendation, since we plan to give this matter further consideration in our continuing review of the activities of the military services.

Index No. 76

B-146829, October 30, 1963

Unnecessary Costs Incurred by Use of an Inadequate Interior Protective Coating for Fuel Truck Tankers, Department of the Army

Our review disclosed that the Army had incurred unnecessary costs of over \$118,000 because it used an inadequate protective coating in the interior of 380 fuel truck tankers used for dispensing fuel to aircraft and vehicles. Although our review was concerned primarily with these 380 vehicles, it is apparent that similar unnecessary expenditures were incurred in coating and recoating other fuel tankers with the Army material. Officials of the Army Tank-Automotive Center directed the use of the coating material even though they had received reports on the ineffectiveness of this coating and knew that the Air Force was using an effective protective coating on its fuel truck tankers. Furthermore, these officials disregarded the directive from higher authority to use the Air Force coating material and awarded the contract for the production and coating of the 380 fuel truck tankers with the inadequate Army coating material.

The Assistant Secretary of Defense (Installations and Logistics) has agreed with our findings and proposals for corrective actions. He has advised us that (1) the Army will reaffirm the requirements for prompt and aggressive action to resolve material problems encountered in production or in field usage, (2) this requirement will be placed upon all Army's development agencies and project managers, and (3) the Army activities will be required to solicit solutions on difficult problems from the other departments in an effort to avoid unnecessary expenditures of time and cost. He advised us further that the military depart-

ments had been directed to investigate and employ improved methods, procedures, and devices which increase operational efficiency, effectiveness of service, and quality of product. We recommended that the Secretary of Defense bring our report to the attention of management officials within the military departments and emphasize the responsibility of each individual to be concerned with operational difficulties and to be alert in exploring and adopting means of correcting them. We recommended further that the Secretary of the Army review the actions of the Army Tank-Automotive Center officials in this case and take corrective measures as necessary, including disciplinary action where appropriate.

Index No. 86

B-146834, December 17, 1963

Report on Procurement of Inaccurate Radiation Measuring Instruments.

Our review disclosed that the Army awarded five contracts for a total of 59,776 radiacmeters at a cost of about \$2.9 million even though it was aware, prior to the first production contract and each succeeding contract, that the radiacmeters were not suitable for Army use. In addition, over \$663,000 has been expended to modify the radiacmeters produced under the second and third contracts, and additional costs estimated at about \$200,000 will be incurred to reimburse the contractors under the fourth and fifth contracts for a temporary work stoppage until the Army investigates technical difficulties and decides whether the radiacmeters will be acceptable to using organizations. The 10,800 radiacmeters produced under the first contract have already been scrapped, and the acceptability of any of the remaining instruments is still questionable.

These unnecessary costs have been incurred because responsible Army officials (1) were overly optimistic that deficiencies identified in tests of experimental model radiacmeters could be corrected in production despite a recommendation by using organization not to enter into volume production until deficiencies were corrected, (2) accepted preproduction and initial production models and approved volume production without adequate and timely coordination of test data between the using organization and the engineering and procurement agencies, (3) awarded additional production contracts even though previously identified deficiencies had not been corrected, and (4) generally did not exercise their personal responsibilities to assure that Government funds were expended properly.

The Deputy Assistant Secretary of the Army, replying on behalf of the Secretary of Defense, concurred with our findings. He stated that the Department of the Army is investigating further the causes for the conditions cited in the report. He stated also that further production of the equipment will not be accomplished until existing technical problems have been solved and the field user's accuracy requirements are met.

The Deputy Assistant Secretary stated further that, on the basis of results of tests, it was concluded that the design of the radiacmeter was sound but that further investigation of the specific causes for the inaccuracies would be made. However, our review disclosed that responsible engineering personnel at the United States Army Electronics Materiel Support Agency, Fort Monmouth, New Jersey, agreed that the contractors met all specifications but that there was a defect in the design of the radiacmeter. In view of the position taken by the Deputy Assistant Secretary, it is evident that a conflict of opinions exists within the Army as to the soundness of the design of the radiacmeter. We did not attempt to determine whether the deficiencies in the radiacmeters resulted from the contractors' production practices or from the Government's design specifications.

We recommended to the Secretary of the Army that (1) those cases where supply management officials, because of the urgency of requirements for equipment, elect to overrule the recommendations of the using forces with respect to performance of the equipment and elect to enter into production before all known deficiencies are corrected be referred to the Assistant Secretary of the Army (Installations and Logistics) for his approval, (2) in the investigation of the specific causes for the deficiencies in the radiacmeters that are the subject of this report, the Department of the Army determine, and advise us, whether the deficiencies resulted from the contractors' production practices or from the Government's design specifications, and (3) consideration be given to taking disciplinary measures against management officials whose actions in this matter were not prudent. We recommended also that the Secretary of Defense bring this report to the attention of management officials within the military depart-

ments and emphasize their responsibilities for determining the adequate performance of equipment before recommending or approving items for volume production.

Index No. 116

B-146762, February 18, 1964

Report on Development, Procurement, and Deployment of an Unsatisfactory Missile System by the Department of the Army

The Army spent about \$300 million for the development and production of a missile system which has not met required performance characteristics and has not improved the Army's capabilities.

The system is an unsatisfactory weapon because (1) its unreliable accuracy and (2) serious tactical problems in its use, such as unusually stringent maintenance requirements, and a high degree of susceptibility to electronic interference. Because of these deficiencies the tactical units, to which the system was deployed, subsequently requested existing older weapons in lieu thereof.

The unsatisfactory characteristics of the weapon were known at the points in time when the Army ordered successively increasing quantities of equipment and missiles.

The waste of program funds clearly began when, despite knowledge that the weapon was unsuitable for tactical use, the Army bought \$19 million of equipment and missiles for issue to the troops. The subsequent \$84 million of procurements increased the waste to over \$100 million. Moreover, other program expenditures were inconsistent with available knowledge, and a substantial but undetermined portion of the remaining costs of about \$200 million was also wasted or of questionable value.

In commenting on our findings, the Secretary of the Army stated that this missile system was developed, procured and deployed to meet a specific operational requirement and that, although it has deficiencies, it is an effective weapon system. Army records show however, that (1) the system did not meet the operational requirement it was intended to meet and (2) its deficiencies are so serious that they make the weapon unsuitable for use by the field Army.

The failure of this program and the resulting waste of funds were caused by fundamental deficiencies in the Army's management of the program, namely the lack of effective methods for gathering and considering available and essential information, for relating such information to program objectives, and for assuring that program decisions further these objectives by specifying minimum results to be obtained. Accordingly, we recommended to the Secretary of Defense that the management control of weapon systems programs be strengthened by improvements in the decision making processes to provide for closed accountability for program decisions and program actions.

MAINTENANCE, REPAIR, AND OVERHAUL

Index No. 2

B-146772, March 14, 1963

Report on Review of Ineffective Repair Parts Support for Combat and Combat-support Vehicles by the Army Tank-automotive Center, Detroit, Michigan

Our review of repair parts support disclosed that lack of repair parts in the Army supply system contributed to the reduction in the combat readiness of certain of the Army's combat and combat-support vehicles. Furthermore, the lack of repair parts was the primary reason for the incurrence of unnecessary costs of at least \$500,000 during fiscal year 1961 by emergency procurements of parts locally that are normally procured centrally at lower prices. The management deficiencies that we identified as factors primarily responsible for the lack of repair parts were (1) delays in awarding contracts after procurement decisions were made, (2) delays in determining whether to procure, and (3) delays in determining needs for parts.

In commenting on the matters in this report, the Army appeared to minimize the significance of our findings, advising that the Army Tank-Automotive Center was managing 81,000 line item and at no time during the period June 30, 1959, through December 31, 1961, did the number of out-of-stock items exceed 1.24 percent. We found that there are only 12,500 active and critical line items controlled by the Center. Although these items should have received priority management attention, we found that as of December 31, 1961, 1,010, or 8 percent, of these more essential items were out of stock.

The Army agreed with our facts and advised us that corrective action was being taken in the deficient areas noted during our review. However, the effort of the Army to minimize the significance of the extent to which the Center was unable to provide a timely supply of parts for combat and combat-support vehicles suggests that the deficiencies we have identified may not receive appropriate management attention. These parts which can have a significant effect on material readiness and combat capability of Army forces deserve thorough administrative surveillance to insure adequate repair parts support. We plan to review the effectiveness of the actions taken by the Army in subsequent reviews of repair parts support for combat and combat-support vehicles.

Index No. 32

B-133102, June 25, 1963

Unnecessary Expenditures for Exterior Storage Facilities Serving Family Housing by the Department of the Army at Fort Dix, New Jersey

We found that unnecessary expenditures of about \$295,000 were incurred in connection with the rehabilitation and maintenance of family housing units at Fort Dix, New Jersey, because exterior storage spaces for housing occupants were constructed even though existing storage facilities could have been modified at relatively small cost to provide equal or more space.

The Army informed us that the new exterior storage facilities at Fort Dix were required because the interior storage facilities were damp and during rainy periods water collected at the foot of the stairwells. The Army considered the cost of correcting this condition prohibitive. Our review disclosed no evidence to indicate that dampness or flooding was considered a major factor in the decision to build the new exterior storage facilities. The Deputy Post Engineer at Fort Dix informed us that with minor preventive maintenance the dampness and flooding problem could be corrected.

Installation officials failed to thoroughly investigate the possibilities of modifying existing interior storage facilities before authorizing construction of new exterior storage facilities. We found that proper consideration of all factors would have disclosed that modification of the existing storage facilities could have been accomplished at a savings of \$295,000 and would have been adequate to meet the requirement.

We believe that the Army officials responsible for the wasteful expenditures incurred in constructing exterior storage facilities did not demonstrate a sense of individual responsibility for economy in managing their activity. Under these circumstances, we consider it important that the Army consider the manner in which this responsibility was met in evaluating the performance of these officials and making future management assignments.

We recommended to the Secretary of Defense that this instance of unnecessary expenditure be brought to the attention of officials of the Department of Defense responsible for the operation and maintenance of family housing to demonstrate the need for full investigation of all possible means to provide adequate facilities at the least possible cost to the Government.

Index No. 44

B-133303, July 12, 1963

Report on Uneconomical Use of Parts Kits to Support Depot Overhaul Activities in the Air Force Logistics Command Department of the Air Force

Our review indicated that millions of dollars of unnecessary costs have been incurred by the Air Force because Headquarters personnel of the Air Force Logistics Command devoted insufficient management attention to the use being made of repair kits to provide parts support to depot-level repair and overhaul activities. We found that weaknesses in the Logistics Command's kit policies and regulations, and demonstrations of the waste resulting therefrom, had been brought to the attention of the Headquarters personnel from time to time by various individuals and organizations in the Air Force. However, up to the time of our review no effective action had been taken to revise these policies and regulations.

Consequently these weaknesses continued to exist, and resulted in the procurement of kits containing a great many parts that were not used, or were used only rarely, in the repair and overhaul of equipment. Most of this new unused material was disposed of as scrap along with the used parts that were replaced in overhaul. We analyzed the volume and cost of the unused parts from 1,527 individual repair kits, representing 144 different types of kits in use at four

overhaul centers at the time of our review. Although our review covered only a small part of the total kits bought and used at these four locations, we have no reason to believe that the results of our tests are not representative of conditions with respect to all kits. If this is so, projection of the results of our tests indicates that the cost of kit parts procured unnecessarily during fiscal year 1962 at these locations exceeded \$10 million. Other unnecessary costs have also been incurred because kits have been used to support certain types of overhaul activities in which their use was neither logical nor economical.

The basic weakness in the kit policies and regulations was that the criteria prescribed for determining which parts would be included in repair kits were unrealistic. This was compounded by the failure of the regulations to provide for periodic analysis of actual usage experience with kits so that the kit contents and packaging could be revised to suit the needs of the overhaul activities.

When our findings were brought to the attention of the Commander, Air Force Logistics Command, a reevaluation of the existing kit policies was promptly undertaken, and significant revisions have been made in the regulations and procedures affecting the use of depot repair kits. If properly implemented and enforced, we believe the revised regulations should correct the deficiencies noted in our review. The Office of the Secretary of the Air Force has advised us that improvement in the management of repair and overhaul kits to prevent waste has been established as a major objective of the Logistics Command and that the Command intends to closely monitor the efforts of its field activities toward this objective.

The Departments of the Army and the Navy are engaged in significant programs involving depot-level overhaul of aircraft as well as other types of equipment. A preliminary review in the Navy disclosed that the Navy policies and regulations relative to repair kits are essentially the same as those used by the Air Force prior to our review, and indications are that many of the deficiencies discussed in this report are also occurring in the Navy. Accordingly, we recommended that the Secretary of Defense direct that a review be made of the use of repair kits in depot-level maintenance activities in both the Army and the Navy and are requesting that we be advised of the results of that review.

Index No. 48
B-146799, July 31, 1963

Report on Impairment of Combat Readiness of a Department of the Army Combat Unit at Fort George G. Meade, Maryland resulting from Lack of Repair Parts

Our review disclosed that, during preparation for deployment to Berlin in the fall of 1961, a majority of the combat and combat-support vehicles of the 3d Armored Cavalry Regiment, a Strategic Army Corps Unit, Fort George G. Meade, Maryland, were out of commission as a result of a lack of repair parts and inefficient inspection practices and were not made completely combat ready after 18 days of intensive effort. These vehicles had been in poor condition as far back as 1959. The condition of the vehicles seriously impaired the readiness of the unit to perform its assigned mission. We identified the stocking of parts on the basis of the number of times requisitioned, rather than on the basis of quantities requisitioned, as an important contributing factor to the shortage of needed repair parts. In addition, our review disclosed that the system of reporting on the efficiency of the supply system and on the condition of the vehicles indicated to higher authority a much better situation as to the readiness of the vehicles than actually prevailed.

In commenting on our findings and proposals, officials of the Department of the Army agreed that the combat and combat-support vehicles of the 3d Armored Cavalry Regiment were not in as high a state of combat readiness as was desirable, but stated that the unit was equipped with "combat serviceable" vehicles when deployed. In addition, they recognized that problems exist in the supply of repair parts and stated that they are continually evaluating their supply system. Several Army Regulations and current programs were cited as responsive to our proposals for improvement.

We found that there was no available evidence to support a determination of the condition of the equipment on arrival in Europe and that the statement that the equipment was "combat serviceable" was made on the basis of the recollection of the officers at the site. However, reports of vehicular condition issued shortly after arrival in Europe, and before any extended use of the vehicles, showed a significant number of vehicles out of commission.

We reviewed changes in the regulations, improvements, and results of special studies made through March 1963, as cited by the Army, and believe that they do not offer satisfactory solutions to the problems identified in our report. The methods of forecasting what repair parts will be needed or of determining the effectiveness of the system have not been altered. In addition, the changes do not provide an adequate basis for improving the reliability of reports on the condition of the vehicles.

We therefore recommended that the Secretary of Defense take further actions to make the system for supplying repair parts more effective. These actions should include (1) using more practical factors as a basis for forecasting needs, (2) developing effective criteria for use in determining the efficiency of the supply system, and (3) improving identification of the true conditions and readiness of vehicles by (a) providing for independent test inspection of vehicles, (b) clearly fixing the responsibility for accurate reporting, and (c) providing for disciplinary action against individuals responsible for significant inaccuracies in reporting. Further, the Secretary should initiate studies to determine if similar deficiencies exist in the other services.

Index No. 78

B-146832, October 31, 1963

Unsatisfactory Condition of Combat Vehicles and Equipment in the 3d Marine Division (Reinforced), Okinawa United States Marine Corps, Department of the Navy

Large quantities of combat equipment of the 3d Marine Division (Reinforced), Okinawa, were out of service for repair for extended periods during fiscal year 1962. Equipment status reports of four battalions responsible for providing the division with major elements of fire power, mobility, and assault engineering equipment showed that from 24 to 45 percent of the major equipment assigned to these battalions was out of service for repairs during various periods in fiscal year 1962. Also, our review indicated that the division's equipment status reports did not show all the equipment needing repair. For instance, a technical inspection of a tank battalion, made by division personnel on June 25 and 26, 1962, disclosed that 91 percent of the battalion's tanks needed repair and that, until repaired, 38 percent of the tanks were incapable of performing their intended combat mission. The June 29, 1962 equipment status report showed that 38 percent of the battalion's tanks were out of service for repair but did not disclose that other tanks also needed repair to be fully effective. The unsatisfactory condition of the division's equipment was attributable to inadequate emphasis on maintenance within the division and to shortages of needed repair parts.

In addition, we found that quarterly combat readiness reports submitted by division headquarters to its higher headquarters, Fleet Marine Force, Pacific, did not contain sufficient information for the proper evaluation of the condition of the division's combat equipment. We found also that, although the unsatisfactory condition of the 3d Marine Division's vehicles and equipment had been known to the Commandant of the Marine Corps since October 1961 and he had directed that action be taken to correct the situation, significant quantities of vehicles and equipment remained in unsatisfactory condition during the balance of fiscal year 1962.

We completed our initial review in July 1962 and brought our findings to the attention of division personnel. Subsequently, in October 1962 we returned to Okinawa to determine whether any progress had been made in the maintenance of combat vehicles and equipment. We found that, while, in some instances, the number of combat vehicles and equipment out of service for repair had shown improvement, action to correct many of the maintenance and supply deficiencies at the using level had not been taken.

In November 1962, we informally discussed our findings, conclusions, and proposals of corrective action with the Commandant of the Marine Corps and subsequently presented them for review and comment to the Department of Defense in the form of a proposed report. In the comments received on our findings, we were advised that a study of the 3d Marine Division, made by Marine Corps officials and completed shortly before we made our review, disclosed findings that were in general accord with ours. We were informed further that aggressive measures to correct the deficiencies disclosed had been, or would be, undertaken. However, we were advised that in the judgment of the Commandant of the Marine Corps, based upon the knowledge of military needs, at no

time was the 3d Marine Division incapable of performing any of the missions projected for it, although these missions could not be performed with the desired capability.

We have made no attempt to evaluate the strategic capabilities of the 3d Marine Division to perform projected missions. However, as acknowledged by the Commandant, at the time of our review the division's vehicles and equipment were not at the desired capability and, consequently, the units to which the defective equipment was assigned could not be expected to be as effective as similar units with fully operable equipment.

The fact that the division's combat equipment was permitted to remain in unsatisfactory condition for extended periods represents, in our opinion, failure of division officer personnel to fulfill their responsibilities. We believe that such failures should be considered when making personnel evaluations and military assignments.

In January 1963, we made a follow-up review to determine the adequacy of corrective action taken, or being taken, to determine the current effectiveness of maintenance and supply activities in the division. Our follow-up review disclosed that, since our visit in October 1962, the division had taken and was continuing corrective action, on the basis of both the actions originally initiated by the Marine Corps and the additional proposals we had made, and that, as a result, the division's equipment and material readiness had been substantially improved. We found also that a new combat readiness reporting system had been instituted. However, the first report submissions under the new system had not been made at the time of our follow-up review, and we were therefore unable to determine the effectiveness of this new system. We plan to make a follow-up review into this matter at an appropriate time in the future to determine whether the division's improved equipment and material readiness, resulting from the corrective action already taken and being taken, is maintained.

Index No. 97

B-132989, January 14, 1964

Report on Overbuying and Unnecessary Overhaul Costs Resulting from Failure of the Air Force to Follow the Navy's Practice of Separating Accessories from Spare Reciprocating Aircraft Engines

The Navy has found it feasible and economical to remove accessories from spare aircraft reciprocating engines and has followed this practice for most accessories for many years. The Air Force, however, leaves the accessories attached to the spare engines.

Removing accessories from spare engines reduces the number of accessories that the armed services need to buy because it minimizes the amount of time that accessories are idle. By getting more use from each accessory, the quantity needed can be reduced substantially. Also, removing the accessories from the engine can prevent unnecessary overhaul of the accessories since it is the general practice of repairing units to overhaul the engines and attached accessories concurrently although the accessories can frequently be safely used for much longer periods than the engines.

Our review of selected items disclosed that the Air Force bought accessories costing about \$3,314,000 during the period from 1950 to 1962 and incurred overhaul costs estimated at \$2,835,000 during fiscal years 1961 to 1963 that could have been avoided by following the Navy's practice of removing accessories from spare engines. These unnecessary costs, for the most part, cannot at this time be recouped; however, future overhaul costs can be reduced by using serviceable accessories attached to spare engines instead of overhauling unserviceable accessories to meet operating needs. For instance, we estimated at the time of our review that, if the Air Force would adopt the Navy's practice of removing accessories from spare engines at June 30, 1963, \$459,000 could be saved on the cost of accessory overhauls during the fiscal year 1964. Additional savings may also be possible in subsequent years. Since our review covered only selected engines and accessories, the total overbuying and unnecessary overhaul costs that have been incurred by the Air Force because of its failure to adopt this practice are, in all likelihood, considerably greater than the amounts disclosed by our review.

We submitted our findings to the Departments of Defense and the Air Force for comment. We also advised these Departments that our review showed that Air Force adoption of the practice of removing accessories from spare reciprocating aircraft engines, called the "nude engine" concept, would result in sub-

stantial savings to the Government and that the concept could be implemented by the Air Force without impairing its operating capability. We therefore proposed to the Secretary of the Air Force that he direct the Department of the Air Force to adopt the nude engine concept for reciprocating aircraft engines.

The Air Force advised us that our findings had been reviewed and that it had been concluded that the nude engine concept has merit. The Air Force believes, however, that it needs to make further inquiry into both the penalties and the benefits of adopting such a program on an across-the-board basis in the Air Force. Accordingly, we were advised that a study would be undertaken and that upon completion of that study we would be advised of the Air Force findings and conclusions on this matter.

Index No. 101

B-132989, January 30, 1964

Report on Overbuying and Unnecessary Overhaul Costs Resulting from the Failure of the Army to Follow the Navy's Practice of Separating Accessories from Spare Reciprocating Aircraft Engines

The Navy has found it feasible and economical to remove accessories, such as carburetors, power recovery turbines, and fuel injection pumps, from spare aircraft reciprocating engines and has followed this practice for most accessories for many years. The Army, however, had continued to leave accessories attached to spare engines.

Removing accessories from spare engines reduces the number of accessories that the services need to buy because it minimizes the amount of time that accessories are idle. By getting more use from each accessory, the quantity needed can be reduced substantially. Also, removing accessories from the engine can prevent unnecessary overhaul of the accessories, since it is the general practice to overhaul the engines and attached accessories concurrently although the accessories can frequently be safely used for much longer periods than the engines.

Our review of selected items disclosed that the Army bought accessories costing about \$1,014,000 during the 6-year period ended December 31, 1962, and incurred overhaul costs estimated at \$421,000 during fiscal years 1961 and 1962 that could have been avoided by following the Navy's practice of removing accessories from spare engines. At September 30, 1962, we found about \$356,700 worth of accessories previously overprocured could be used to fill estimated future needs for spare accessories if they were removed from uninstalled engines on hand at that date. There was no such need for the remaining \$657,300 worth of accessories that had been overprocured during the 6-year period.

The accessories that had been procured unnecessarily during the 6-year period were only a part of the accessories that could be made available to meet spare accessory needs by adoption of the Navy's practice of removing accessories from uninstalled engines. In this respect, we found at September 30, 1962, an additional 316,300 of estimated future needs for spare accessories could have been met by removing accessories from uninstalled engines. Since our review was limited to selected engines and accessories, the total overbuying and unnecessary overhaul costs that have been incurred by the Army because of its failure to adopt this practice were, in all likelihood, considerably greater than the amount disclosed by our review.

At an early point in our review, we discussed our findings with officials at the United States Army Aviation and Surface Materiel Command and suggested that the Army consider adopting the practice of removing accessories from spare reciprocating aircraft engines, called "nude engine" concept. On October 5, 1962, before we completed our review, we were informally advised that the Army had adopted the nude engine concept for all its reciprocating aircraft engines and applied the concept to the accessories we reviewed as well as to certain additional accessories. We were advised also that, in future procurements, spare reciprocating engines would be bought without these accessories.

AUTOMATIC DATA PROCESSING

Index No. 18

B-146732, April 30, 1963

Report on Review of the Excessive Cost of Leasing Compared with Buying Certain Electronic Data Processing Equipment by the Department of the Air Force

Our review disclosed that about \$1.3 million will be expended unnecessarily by the end of 1963 because the Air Force failed to take advantage of reduced sales

prices offered by International Business Machines Corporation in 1961 and Burroughs Corporation in 1962 for 14 electronic data processing systems which the Air Force leases.

In a letter dated January 15, 1963, the Assistant Secretary of the Air Force (Financial Management) agreed that savings could have been realized by purchasing the systems included in our review. He informed us that the Air Force is taking steps to identify data processing systems of all manufacturers which it would be advantageous to purchase.

In our report on the study of financial advantages of purchasing over leasing of electronic data processing equipment in the Federal Government (B-115369, March 6, 1963), we recommended that the President of the United States establish a central management office suitably empowered with authority and responsibility to make decisions on the procurement and utilization of data processing equipment. Until the necessary coordinating organization is established, we recommended as interim actions that the Air Force assure full consideration of possible purchase of electronic data processing equipment and that the Secretary of Defense assign administration of electronic data processing equipment acquisition and use to one department or agency of the military establishment.

Index No. 28

B-146796, June 17, 1963

Unnecessary Costs Incurred because the Navy Failed to Purchase Leased Automatic Data Processing Components Offered at Reduced Prices

Our review disclosed that the Navy failed to purchase components of the automatic data processing systems being rented at the Norfolk and Portsmouth Naval Shipyards when they were offered for sale at discounted prices although it could have been predicted that savings of about \$165,000 would result from such purchases. These savings could have been predicted during May 1961 by comparing the cost of renting these components for the future period that the Navy planned to retain them with the cost of buying the components plus the cost of suitable maintenance contracts for the same period of time. Our work indicated that the Navy did not purchase the automatic data processing components at these two shipyards because of a failure to exercise adequate surveillance over the actions necessary to determine when it would be advantageous to purchase automatic data processing components offered at a discounted price in lieu of continuing to lease such components.

In view of the fact that the Navy later deferred the dates for replacing these components, it now appears that, if the components had been purchased when first offered for sale, the savings would have been about \$339,600 rather than the \$165,000 that could have been predicted in May 1961. In addition, we found that, even though a major portion of the predictable savings had since been lost, appreciable savings could still be realized if the components of the automatic data processing system being rented at the Norfolk Naval Shipyard were purchased.

Our findings were presented to the Department of Defense and the Department of the Navy for comment. The Navy subsequently advised us that it had purchased the automatic data processing system used by the Norfolk Naval Shipyard. This action should result in savings to the Government of about \$70,300. The Navy also advised us that a Department of Defense study is in progress which includes determining whether leased automatic data processing systems should be purchased and whether additional controls are needed for lease versus purchase situations.

Index No. 62

B-146812, September 19, 1963

Report on excessive cost to the Government for leasing instead of purchasing analog computer systems for use under negotiated defense contracts by the Martin Marietta Corporation at its plant in Orlando, Florida.

The Government will incur excessive costs of about \$230,000 because the Martin Marietta Corporation leased analog computer systems instead of purchasing them for use under Government cost-reimbursable contracts at its Orlando, Florida plant. Martin knew at the time of entering into a 5-year lease that, for the period of the lease, the Government would have to pay rentals substantially in excess of the purchase price and that neither the Government nor Martin would have title to the equipment.

The contractor stated that its decision to lease rather than purchase the equipment was reasonable in light of the circumstances that existed at the time the

decision was made. However, our review indicated that the decision was not reasonable since it would result in substantial increased costs. The Deputy Assistant Secretary of Defense (Procurement) concurred with our view and advised us that the Department of Defense had initiated action to obtain recovery of the excess cost charged to the Government. He also advised us that existing leasing arrangements for electronic data processing equipment (including both digital and analog equipment) were being reviewed by the military departments and that leased equipment would be purchased whenever it would be economical to do so. We have requested the Secretary of Defense to advise us of the results of the collection actions taken in this case.

In view of the actions taken by the Department of Defense, we made no recommendations in regard to this specific case. However, we recommended that the Secretary of Defense direct the military departments, in connection with their review of present leasing arrangements, to (1) review rental costs charged to Government contracts and disallow those costs that are unreasonable in relation to the cost of ownership and (2) consider the financial advantages of purchasing leased equipment, or continuing or terminating existing leases, not only from the standpoint of the circumstances at a particular contractor's site but also from the standpoint of the Government as a whole, including other Government contractors. In the latter connection, in a report to the Congress (B-115369 dated March 6, 1963) on the lease of electronic data processing equipment by Government agencies, we recommended that a central management organization be established to coordinate the purchase and lease of this equipment. That report applied to both digital and analog equipment and related to direct Government leases. However, the purchase or lease of such equipment or systems required by contractors in the performance of negotiated contracts with Federal agencies, when the whole or a substantial part of the cost would become a part of Government contract prices, should similarly be coordinated by the same central organization and appropriate action should be taken to assure the most advantageous arrangement for the Government.

Index No. 79

B-146732, November 13, 1963

Unnecessary Costs Incurred by Leasing Rather Than Purchasing Electronic Data Processing Equipment at White Sands Missile Range New Mexico, Department of the Army

Our review disclosed that the Government incurred unnecessary costs of \$1.3 million during the period January 1, 1961, through August 31, 1963, because the Army leased, rather than purchased, two 704 electronic computers and supporting equipment used by the White Sands Missile Range. One of the 704 systems was replaced by more modern equipment in July 1963 and the other system was scheduled to be replaced in September 1963.

Further, we found that the Department of the Navy had recently contracted for the purchase of a 704 electronic computer at a cost of \$648,449, which was scheduled for delivery in September 1963. Had the Army purchased the equipment used by the White Sands Missile Range, the computer and many of the components could have been utilized to fulfill the Navy's current requirements and the cost to the Government would have been reduced accordingly. We estimate the value of these components to be about \$502,000, less the cost to refurbish them, if any. The remaining equipment might have been utilized to fill other Government requirements with potential savings of about \$368,000.

This review further demonstrates the financial advantages to the Government of purchasing over leasing electronic data processing equipment as indicated in several of our previous reports, including B-115369 dated March 1963 and B-146732 dated April 1963. In these reports, we recommended that the President of the United States establish in his organization a central management office suitably empowered with authority and responsibility to make decisions on the procurement and utilization of data processing equipment, with the objective of obtaining and utilizing all needed facilities at the lowest cost to the Government. We were advised that, inasmuch as this recommendation was addressed to the President of the United States, it was not appropriate for the Department of Defense to express a view in respect thereto. We further recommended that, until the necessary coordination organization is established, the Secretary of Defense direct that the acquisition and use of data processing equipment be administered by one department or agency of the military establishment which would act as a clearing house for data processing equipment requirements and

usage. We were advised that this responsibility had been assigned to the Office of the Assistant Secretary of Defense (Installations and Logistics).

Index No. 91

B-146732, December 24, 1963

Report on Excessive Cost of Leasing Compared with Buying Certain Electronic Data Processing Equipment at Kirtland Air Force Base, New Mexico.

Our review disclosed that the Air Force would expend about \$1,780,000 unnecessarily in the next 3 years if it did not take advantage of a purchase option offered by Control Data Corporation for its 1604 electronic data processing system which the Air Force leased at Kirtland Air Force Base and almost a million dollars each year the equipment is used thereafter.

We brought this finding to the attention of the Secretary of Defense and proposed that immediate consideration be given to purchasing the Control Data Corporation 1604 electronic data processing system at Kirtland Air Force Base.

The Department of the Air Force, in commenting on our proposal, advised us that the Control Data Corporation 1604 electronic data processing system at Kirtland Air Force Base would be purchased. We subsequently learned that, effective July 1, 1963, the Air Force purchased the Control Data Corporation 1604 electronic data processing system and, by this action, will save about \$1,780,000 in the next 3 years and almost a million dollars each year the equipment is used thereafter.

There are many other electronic data processing machines leased by the Department of Defense from various manufacturers that offer purchase option plans, and we believe that additional opportunities may exist to attain significant savings if the Department of Defense takes advantage of these options. Therefore, we recommended to the Secretary of Defense that the review of purchasing versus leasing electronic data processing equipment, which we recommended in previous reports, include a determination of whether purchase options for such equipment can be advantageously exercised.

Index No. 120

B-146796, February 25, 1964

Report on Plans for Purchase of Leased Automatic Data Processing Components in Use at Military Installations

We made a report on the plans for purchase of leased automatic data processing components in use at military installations, Department of Defense. We submitted this report to keep the Congress advised of the progress which the Department of Defense is making in purchasing automatic data processing equipment in cases where the cost of ownership for the estimated life of the equipment would be less than the cost of leasing.

In recent months we have issued a number of reports to the Congress in which we pointed out the financial advantages of purchasing over leasing of automatic data processing equipment. A major portion of this equipment is used by the Department of Defense, and a number of our reports on this subject have involved equipment being leased by them. In response to these reports, the Department has advised us that it has completed a study of automatic data processing equipment that it is now leasing or has planned to lease and has identified equipment costing over \$225 million that it estimates can be purchased with economic advantage to the Government of \$65.9 million a year once the break-even point is reached. We are advised that the Department has earmarked \$201 million for the purchase of such equipment. It plans to make these purchases by February 29, 1964. After these purchases are made, the Department estimates that it will own about 40 percent of the equipment it is using.

The Department informed us also that, in making its study, it considered for the most part the needs of each military installation individually and did not consider the needs on a defensewide basis. Because neither defensewide nor Government-wide needs were considered, we do not believe that the Department's study can be relied upon to have identified all the automatic data processing equipment that, if purchased, would result in savings to the Government or that it has necessarily identified the particular items of equipment that, if purchased, would result in the greatest savings from the funds to be expended. For example, one installation may have decided not to buy leased equipment because it plans to replace the equipment within a few months and the purchase price, even considering reductions offered by the manufacturer, exceeds lease costs to that date.

At the same time, a second installation may be paying the full price for a new model of the equipment identical to that available at a much lower price at the first installation.

Furthermore, we believe that, if defensewide or Government-wide needs for automatic data processing capability were considered as a whole rather than the needs of each installation being considered separately, the overall needs of the Department or the Government for such equipment might be reduced considerably. For instance, in a locality in which there are 15 installations, each having its own automatic data processing system, it may be possible to reduce the number of systems to 10 by providing for cooperative use of such equipment and by taking full advantage of all work shifts during which the equipment can be used.

Notwithstanding our belief that the Department's proposed action is not the optimum answer to the problem of obtaining the maximum data processing capability at the least cost, on the basis of our studies we believe that substantial savings should be obtainable under the Department's plan. Since the equipment that the Department proposes to buy represents only 40 percent of the equipment it is using, there is little likelihood that it will purchase more than it may ultimately need. Therefore, we concur in the Department's plan to promptly acquire ownership of a greater portion of the automatic data processing equipment it is using; however, we believe that the broader, long-range problem should also be given immediate consideration.

The advantages in considering data processing requirements on a Government-wide basis and the substantial investment in ownership of equipment being planned by the Department both illustrate the need for a central management office to make decisions on the procurement and utilization of data processing equipment as recommended by us to the President of the United States in earlier reports.

PAY AND ALLOWANCES

Index No. 3

B-146779, March 21, 1963

Report on Review of Unnecessary Costs to the Government for Packing Shipments of Household Goods for Air Force, Navy, and Marine Corps Personnel

On the basis of our review, we estimate that the Government is bearing unnecessary costs of over \$190,000 a year because the Air Force, Navy, and Marine Corps do not charge servicemen a proportionate share of packing and unpacking costs when shipments of their household goods are in excess of prescribed weight allowances. We find that the Army has been charging such costs to its personnel.

We reported our findings to the Secretary of Defense, and we were advised by the Assistant Secretary of Defense (Installations and Logistics), that uniform rated so that the Department of Defense bears only those costs that relate to the maximum weight allowed.

Index No. 11

B-125037, April 16, 1963

Report on Review of Causes of Overpayments of Military Pay and Allowances
Department of Defense

The General Accounting Office and the military services in selective audits have detected about 1,250,000 overpayments totaling over \$100 million made to servicemen during fiscal years 1957 through 1961. It is estimated also that during the 5-year period there were over 500,000 underpayments totaling about \$22 million. The vast majority of overpayments and underpayments were for special types of pay and allowances, such as reenlistment bonuses, lump-sum payments for accrued leave, and basic allowance for quarters, as distinguished from basic pay.

The Government is unable to recover about \$18 million, or 18 percent, of the total identified overpayments. Substantial additional costs are incurred in correcting and collecting overpayments, but the amount cannot be determined with any degree of accuracy because of the hundreds of thousands of administrative actions involved in processing documents and in the collection of debts from discharged servicemen. In the administration of military pay and allowances, the services employ about 45,000 persons with annual costs of over \$150 million.

In most cases overpayments result through no fault of the service members and create hardships that have a significant effect on morale when they are

required to refund amounts overpaid. Because of the hardships, the Congress is called upon, in many instances, to enact legislation to relieve the service members of their indebtedness to the Government.

The major cause of overpayments is the high turnover rate and lack of training of military personnel engaged in the administration of military pay and allowances. Turnover rates of personnel and disbursing offices' military staffs frequently are in excess of 100 percent a year. In contrast, civilian employees of these offices have a very low turnover rate; and, without exception, we found that where civilians were being used in the administration of pay and allowances the error rate was far below that of a staff of predominantly military personnel. The high turnover rate apparently is due primarily to the services' rotation policy.

An unusually high percentage of enlisted men, running as high as 80 percent of the staff, have not receive formal training or schooling in disbursing or related personnel functions. The need for training is emphasized by the fact that the military personnel compensation structure is extremely complicated and requires an intimate knowledge of legislation, regulations, and Comptroller General's Decisions before a proper determination of entitlement can be made. The knowledge once gained in this highly specialized area can be retained only by continuity of assignment. We were not able to determine the reasons why a sufficient number of servicemen have not been provided necessary training in disbursing and personnel functions.

We proposed to the Secretary of Defense that, in light of the rotation policy, the services be required to substantially increase the use of civilian personnel in the administration of pay and allowances so that a stable and trained staff could be maintained. The Assistant Secretary of Defense (Manpower) in reply stated that civilians were being used where practicable and that rotation of military personnel was necessary to fill positions afloat and overseas.

We agree that a sufficient number of military personnel are needed to administer pay and allowances overseas and aboard ship, but there is serious question as to whether the disproportionate imbalance between military and civilian employees engaged in the administration of pay and allowances at installations located in the United States is justified. Our review covered 28 personnel offices and 16 disbursing offices in the United States. Over 1,300 persons were employed in the personnel offices. Only 56 were civilians. About 980 persons were employed in the disbursing offices, of which 436 were civilians.

We believe that many of the weaknesses now existing in the administration of pay and allowances can be fully corrected only by continuity of assignment and proper training and supervision of personnel, either military or civilian. Therefore, we recommended that the Secretary of Defense consider ways and means to accomplish this, including the possibility of requiring the services to substantially increase their use of civilian personnel in administrative functions connected with the pay and allowances of military personnel.

Two other main causes of overpayments are (1) the complexities of the legislation and regulations governing military pay and allowances and (2) the fact that personnel officers' responsibilities in the administration of pay and allowances are not fully recognized by law or by administrative action.

The Assistant Secretary agreed with our proposal that a study be undertaken which would include as primary objectives the submission of legislative proposals to the Congress encompassing a complete revision and simplification of the entire military pay compensation structure. He agreed also that there may be some merit to our proposal that personnel officers, who make about 80 percent of the errors, should legally be held financially liable for overpayments caused by them. Military disbursing officers, under present laws, are held legally financially liable for overpayments but have little or no authority to control pay and allowances functions of personnel officers.

Accordingly, we recommend to the Congress that consideration be given to enacting legislation perhaps similar to that provided in the Certifying Officers Act (31 U.S.C. 82c-d) making military personnel officers financially liable for overpayments resulting from their actions. We recommend also that the Secretary of Defense take positive steps to assure that emphasis is placed upon official and personal responsibility of personnel office staff members engaged in the administration of pay and allowances and that a continuing high overpayment error rate by an important factor in evaluating the work performance of the individuals assigned to these duties.

Under a very highly selective audit of accrued leave, over 200,000 overpayments, amounting to about \$12 million, were disclosed during the period covered by our review. All the services have been made aware of the weaknesses in the recording and payment of leave. For example, in five reports to the Congress issued between August 1958 and September 1959 on the results of our audits of accounts of disbursing officers of the military services, copies of which were forwarded to the Department of Defense, we stated that serious deficiencies in the administration of leave continued to exist notwithstanding the adoption of additional procedures and controls in an effort to correct the problem. The Department of Defense, has, in substance, stated that the shortcomings in the administration of leave are recognized and that corrective actions have been initiated and are being pursued vigorously. Notwithstanding these assurances, the number of overpayments for accrued leave continues to be one of the highest.

There is no reason to believe, however, that if truly aggressive and meaningful administrative action is taken the weaknesses in the present system for recording leave cannot be corrected. We, therefore, recommend to the Secretary of Defense that he take such action as requiring proper training and continuity of assignment of personnel engaged in the administration of leave and the establishment of a policy that will include provisions for requiring the institution of disciplinary action against those responsible for inefficient performance.

Over payments occur in flight pay because minimum time performance requirements of 4 hours a month are not met by service members. This requirement also incurs highly uneconomical use of aircraft and aviation maintenance. The Assistant Secretary agreed with our proposal to initiate a study of the feasibility of eliminating monthly minimum flight time performance requirements for service members who otherwise are entitled to incentive pay for aerial flight duty. The elimination of minimum time performance requirements should result in savings to the Government of millions of dollars each year in the maintenance and operation of aircraft.

Index No. 54

B-146800, August 7, 1963

Report on Unjustified Cost-of-living Allowances Paid in the Alaskan Command to Military Personnel not Accompanied by Dependents, Department of Defense

Our examination disclosed that cost-of-living allowance payments approximating \$355,000 were made during the period August 1, 1959, to June 30, 1962, to commissioned and noncommissioned officer personnel under circumstances that did not justify such payments. The payments to commissioned officers were made on the basis that adequate Government messing facilities were not available when, in fact, existing military dining halls were adequate to serve both officer and enlisted personnel. Army noncommissioned officers who were residing in bachelor enlisted quarters were authorized to mess separately, merely on the basis of such residency, and to receive cost-of-living allowance payments in addition to their basic allowance for subsistence. Continuation of these cost-of-living allowance payments to officer and enlisted personnel will result in the questionable expenditure of approximately \$241,000 annually.

In January 1963 we proposed to the Secretary of Defense that a review be made by the major commands in Alaska to determine whether the cost-of-living allowance payments then being made were warranted. We also proposed that payments found to be unjustified be discontinued. We suggested that appropriate steps be taken to prescribe uniform criteria to be considered by local commanders prior to approval of cost-of-living allowances and that appropriate review and surveillance of these local determination be exercised at the proper command level.

In commenting on our proposals the Assistant Secretary of Defense (Manpower) (stated that the Department of the Army informed its commands in March 1963 that enlisted members who were not accompanied by their dependents would not be authorized a cost-of-living allowance where enlisted messes were available. It is our understanding that this action by the Army will result in the elimination of authorizations to mess separately for those enlisted men living bachelor enlisted quarters in Alaska, and other overseas areas, and in the termination of cost-of-living allowance payments of approximately \$54,000 annually in the Alaskan Command. The Assistant Secretary of Defense further

advised that the Alaskan Command had directed the establishment of criteria for use by all services in authorizing cost-of-living allowances to their members.

With respect to our findings that there were adequate messing facilities at Air Force and Army installations in Alaska to provide separate service to all commissioned and noncommissioned officers who were being paid cost-of-living allowances, the Assistant Secretary of Defense contends that the continued association of officers and enlisted members in enlisted messes was contrary to the best interests of the services. We believe that, with respect to the military installations in the Alaskan Command, satisfactory physical arrangements can be made to reserve certain dining areas in enlisted personnel dining halls for the exclusive use of officer personnel. Such an arrangement should not be detrimental to the best interests of the services and could be expected to result in considerable savings to the Government. We therefore recommended to the Secretary of Defense that he reconsider both the feasibility and desirability of establishing acceptable separate messing facilities for officers in those enlisted mess halls where the physical facilities readily lend themselves to such an arrangement.

Index No. 64

B-146551, September 30, 1963

Report on payments to Naval Reserve officers on annual active duty training for unnecessary days of travel and for days in which no training or travel is performed.

We found that Naval Reserve officers who are authorized travel to and from annual active duty training assignments by either commercial or private means generally travel by privately owned automobile and many have been paid for up to 5 days' travel time in excess of that which would have been required by air common carrier. We also found that many Naval Reserve officers residing within commuting distance of their active duty training site were unnecessarily required to report the day before training started and were not released promptly after training was completed. We estimated that these practices result in unnecessary costs to the Government of as much as \$600,000 a year.

The Deputy Assistant Secretary of Defense in commenting on these matters concurred in the need for corrective actions and indicated that measures to limit travel time of Reserve Officers were being considered. We recommended that the Secretary of Defense implement such measures and, also, prescribe regulations to prohibit the practice of requiring Reserve officers to report for annual active duty training earlier than necessary to carry out planned training and to insure the prompt release of such officers after completion of essential training.

Similar costly practices also were noted in our preliminary review of travel payments to Army and Air Force Reserve officers on annual active duty training. We, therefore, suggested to the Department of Defense that corrective measures be applied to travel performed by all Reserve officers. While Army and Air Force officials concurred in general with the principle contained in our proposal, they stated that their existing practices were appropriate and did not require correction. Accordingly, we are continuing our review to determine the extent to which Army and Air Force Reserve officers on annual active duty training are being paid for days when no training or necessary travel is performed. This matter will be the subject of subsequent reporting.

Index No. 77

B-146822, October 31, 1963

Illegal Per Diem Payments to Military Personnel of the Navy and Marine Corps Serving as Military Inspection Representatives in Tokyo and Osaka, Japan, Department of the Navy

The Navy illegally paid per diem to military personnel of the Navy and Marine Corps serving as military inspection representatives at Japanese contractors' plants in Tokyo and Osaka, Japan. Payment of per diem to these military personnel was illegal because they had been improperly placed on temporary rather than permanent duty by the Commander, Fleet Air Western Pacific, although they were at the same location for continuous periods of up to almost 4 years' duration. We found that, during the period July 1, 1959, to June 30, 1962, illegal per diem payments of this type totaling about \$265,000 were made to 40 inspectors. However, the net unnecessary cost to the Government for this period was about \$203,000, since the Navy would have paid the inspectors allowances totaling about \$62,000 had they been placed on permanent

duty. Although our computation of unnecessary cost to the Government was limited to fiscal years 1960 through 1962, many of the inspectors had been assigned to these plants for periods prior to and after these fiscal years. Therefore, the total unnecessary cost to the Government would be substantially in excess of the \$203,000 we identified.

In bringing our findings to the attention of the Department of Defense, we proposed that the Navy discontinue per diem payments to these inspectors and that they be assigned to permanent duty at the contractors' plants. The Navy concurred in our findings and advised us by letter dated July 24, 1963, that per diem payments to inspectors at Osaka had been terminated and that they had been assigned to permanent duty at the contractors' plants. The Navy stated also that per diem payments to inspectors at Tokyo had been terminated on November 30, 1962. In addition, the Navy advised us that Navy Travel Instructions were being revised to clearly prohibit consecutive periods of temporary duty at the same place, broken by only short periods at the official duty station. Further, we were advised that internal audit programs providing general guidance for Navy auditors would be expanded to direct specific attention to the possibility of unnecessary per diem payments for periods of extended temporary duty.

We also proposed to the Navy that specific responsibility for these unnecessary payments be determined and that reassignment or disciplinary action be taken as appropriate. With respect to reassignment, the Navy advised us that all personnel who could have had responsibility for the payments in previous periods had been reassigned. With respect to determining responsibility and talking appropriate disciplinary action the Navy advised us that an investigation and evaluation of the operations and circumstances during the period involved would be undertaken as promptly as possible and that our Office would be informed of the action taken.

We believe that the measures taken by the Navy, if properly administered, should provide reasonable assurance that payments of per diem in situations such as those described above will not recur. We plan to give further consideration to the effectiveness of these procedures as a part of our continuing review of the Navy's activities.

We further proposed to the Navy that the illegal payments of per diem be recovered from the individuals involved. The Navy replied that it recognized the dictum that no one may retain that to which he is not entitled, but felt that recovery action was unconscionable since competent officials had administratively misinterpreted the spirit of the Joint Travel Regulations although they had complied with the letter of the law. Contrary to the Navy's view, the record shows that the Navy did not comply with the law on this matter, and we therefore can find no basis on which we may concur in the Navy's position. Accordingly, we issued formal exceptions against the accounts of the disbursing officers who made the illegal payments. We advised the disbursing officers that the amounts of the exceptions may be reduced by the permanent duty allowances to which the inspectors would otherwise have been entitled.

Index No. 89

B-146779, December 20, 1963

Report on Unnecessary Costs Incurred for Temporary Storage of Household Goods for Military Personnel

We estimate that the Government has incurred unnecessary costs of about \$1.2 million a year because servicemen's household goods were placed in temporary storage, although Government quarters or civilian housing were available when the shipments arrived at the servicemen's new duty stations. These unnecessary costs were incurred as a result of (1) the failure of transportation officers to have the goods delivered to the available quarters, (2) the failure of incoming personnel to inform the transportation officers as to where the goods should be delivered or to make arrangements for their household goods to be accepted at their quarters while they were on leave, and (3) the failure of transportation officers and housing officers to coordinate on the assignment of available quarters in time to prevent temporary storage.

We advised the Department of Defense of our findings and conclusions and proposed certain specific steps to be taken to improve coordination between transportation officers, housing officers, and service personnel at military installations in order to minimize unnecessary storage of household goods. The Assistant Secretary of Defense (Installations and Logistics) informed us that

the Department of Defense was in general agreement with our findings and conclusions and that the military departments were issuing instructions in conformity with our proposals, designed to preclude further unnecessary storage.

We believe that the proposed new instructions will be more effective if the personnel concerned are made fully aware of their responsibilities. We therefore recommended to the Secretary of Defense that he require the military services to establish procedures providing for the review of circumstances leading to the storage of household goods for short periods of time. When the review discloses that personnel have failed to take the actions required to preclude unnecessary storage, we believe that they should be subject to administrative disciplinary action as appropriate under the circumstances.

Index No. 90

B-125036, December 20, 1963

Report on Erroneous Reporting of Taxable Income and Taxes Withheld from Pay of Military Personnel, Department of the Air Force.

Our review disclosed that inaccurate reporting to the Internal Revenue Service of taxable income and taxes withheld from the pay of military members of the Air Force resulted in potential loss of revenue to the Government and in inequities to individual service members. On the basis of our selective review of Air Force records, we estimate that about \$2,700,000 of service members' income properly subject to Federal income tax was not reported by the Air Force to the Internal Revenue Service for 1961 and that about \$780,000 of income not subject to income tax was reported. The same errors were included in the statements furnished to the individual service members for their use in filing income tax returns. If the \$2,700,000 of taxable income that was not reported were taxable at the minimum rate of 20 percent, the potential loss of revenue to the Government for 1961 would be about \$540,000. In addition, at the same 20 percent minimum tax rate, the Government could be required to make refunds of \$156,000 to those service members whose taxable incomes were overstated. We estimate also, on the basis of our tests, that errors in the reporting of taxes withheld from individual service members for 1961 resulted in certain members' receiving credit for about \$158,000 of taxes not actually withheld from them, while others did not receive credit for about \$212,000 that had been withheld.

Similarly, we estimate that, because of improper determinations of wages subject to social security tax, the Government did not collect social security taxes in 1961 on wages of approximately \$164,000 from some members, while others paid taxes on wages of about \$123,000 for which they were not actually liable. These errors in determining the social security tax liability of individual members also resulted in erroneous payment by the Air Force to the Internal Revenue Service of its share of social security taxes. A further consequence of the incorrect reporting of wages subject to these taxes is the possible effect on the amount of social security benefits to which individual service members may eventually become entitled.

We believe that the errors identified in our review are attributable chiefly to failure of clerical personnel to satisfactorily perform assigned tasks in connection with military pay recordkeeping. Moreover, the fact that these errors went undetected indicates a lack of effective supervision or review of these activities and lack of effective internal audit and verification of the accuracy of the information submitted to the Internal Revenue Service.

After our findings were brought to the attention of the Department of Defense, the Air Force issued instructions emphasizing the necessity for review of the taxable nature of items of entitlement in the audit of military pay records and provided for reconciliation of the income and tax data appearing on military pay records with the data submitted to the Internal Revenue Service. The Air Force is also undertaking a review of its records for 1962 to identify discrepancies between the pay records and the data submitted to the Internal Revenue Service for that year and is making arrangements to report the discrepancies for both 1961 and 1962 to the Internal Revenue Service.

Since the type of errors identified in our review in the Department of the Air Force may also exist in the Departments of the Army and Navy, we suggested that these services review their records to determine if taxable income and related taxes are being reported accurately. We have been advised that the Army and Navy have had procedures in effect in the past to verify, on a test basis, the accuracy of information reported to the Internal Revenue Service.

Therefore, they do not believe it is necessary to perform a detailed review for 1961 or 1962. However, a special review will be made for 1963 to insure the accuracy of the data submitted and the effectiveness of the existing review procedures.

The corrective actions that have been taken and are being taken should help prevent the types of errors disclosed in our review. However, the effectiveness of these actions will depend upon the manner in which they are carried out. We intend to evaluate the results of these actions as part of our continuing reviews of military pay and allowance activities.

Index No. 113

B-146861, February 17, 1964

Report on Improper Payments to Military Personnel for Travel of Dependents

Our review disclosed that the Government incurred unnecessary costs that we estimate at about \$181,000 during calendar years 1958 through 1962 because Army personnel claimed reimbursement and were paid for travel of their dependents, although the Government had already paid the common carriers directly for such transportation. These unnecessary costs were due to fraud or error on the part of service personnel coupled with an absence of controls to prevent the improper claims. We have been calling cases of this type to the attention of the Army Finance Center, Indianapolis, Indiana, over a period of years. Although the Army took action to collect the overpayments disclosed by our reviews, it failed to establish an effective method of control and the erroneous claims and payments continued to occur. In addition to the improper payments, substantial administrative costs were incurred by the Army to investigate the circumstances behind these cases and to collect the overpayments.

By letter of December 6, 1963, the Assistant Secretary of Defense (Comptroller) advised us that, in accordance with our recommendations, (1) the Army had issued instructions requiring that copies of all transportation requests issued for travel of dependents be forwarded to the new duty station of the member for use in determining entitlement to claims for travel expense, (2) those personnel submitting false claims would be disciplined and prosecuted if warranted, and (3) the procedures of the other services in this area had been evaluated and appropriate action would be taken to strengthen controls to prevent improper payments. We believe that these actions, if effectively carried out, will correct the problem disclosed in this report.

Index No. 114

B-125037, February 17, 1964

Report on Deficiencies in Administration of Government Quarters, Messing Facilities, and Military Leave at Dow Air Force Base, Maine

Our review disclosed that unnecessary per diem payments were being made because personnel on temporary duty at the base were being issued certificates showing that messing facilities or quarters were not available when, in fact, they were. We also found that unused leave for which service members received lump-sum payments upon discharge was being erroneously carried forward to their new leave accounts upon reenlistment, and that members were not being properly charged for leave taken in conjunction with travel to new permanent duty assignments.

We believe the deficiencies disclosed by our review were attributable primarily to lack of familiarity with pertinent regulations and procedures by the personnel administering housing and leave and to inadequate supervision and review of these base functions. The Air Force informed us that action would be taken to advise the base commander at Dow Air Force Base to immediately institute necessary action to correct the deficiencies disclosed by our review.

MANPOWER UTILIZATION

Index No. 106

B-146831, January 31, 1964

Report on Ineffective Program Planning and Uneconomical Utilization of Personnel Assigned to the Air Force Reserve Recovery Program

Our review disclosed that the Air Force established Reserve Recovery Squadrons at 200 airports in the United States before ascertaining the needs

of the major Air Force commands which these squadrons were intended to serve. As a result, over 100 of these squadrons either have been assigned since their formation in July 1961, or are being considered for reassignment, to airports that (1) are located in areas of high vulnerability to enemy attack, have inadequate facilities, or otherwise do not meet the needs of the major using Air Force commands, (2) are unreasonably long distances from the home cities of the units, thus reducing the units' capabilities to react quickly during an emergency, or (3) are already occupied by military units capable of performing the mission assigned to the recovery squadrons.

Thus, because of ineffective program planning by the Air Force, more than half the Reserve Recovery Squadrons are of little value to the using commands in the event of an emergency. Furthermore, unless the Air Force can find some way of adequately utilizing these squadrons, more than half of some \$30 million appropriated to date for the Recovery Program will have been largely wasted.

Our report shows also that the mission of providing ground support to aircraft dispersed from their home bases to less vulnerable airports during periods of increased tension was assigned to the Reserve Recovery Squadrons, although no critical need exists for their services at many dispersal sites and there is little assurance that reservists can effectively be used in this type of mission. The unlikelihood of effectively utilizing recovery units during a prehostility period to support dispersal of aircraft and aircrews was brought out during the Cuban crisis in October 1962, when the Air Force commands dispersed their aircraft with only minor assistance from recovery unit personnel, on a volunteer basis.

We found also that the premature establishment of recovery units brought about the development of manning tables that were not based on the actual needs of the major using commands. As a consequence, the manning tables may include positions that are not likely to be necessary during periods of dispersal or recovery. To the extent that unneeded positions are filled or will be filled, the costs of drill pay and other expenses involved in training these personnel are largely wasted.

We brought our findings to the attention of the Secretary of Defense and proposed that he take steps (1) to inactivate unneeded recovery squadrons, (2) to institute a study to ascertain the reasonableness of assigning a dispersal mission to Reserve units, and (3) to have the manning tables of retained squadrons adjusted to include only the minimum types and numbers of personnel necessary at each site to fulfill the needs of the major using commands.

The Department of Defense concurred in general in our proposals and subsequently directed the Air Force to initiate studies similar to those we proposed. The Department indicated, however, that inactivation of unjustified recovery units would not be made until some time after an extensive study of the Reserve Recovery Program missions is completed. Although we concur in general in this procedure, we nevertheless believe that it may unnecessarily prolong the existence of some squadrons which have been recognized for some time as not being usable in the program.

We therefore recommended that the Secretary of Defense consider for immediate inactivation those Air Force Reserve Recovery Squadrons for which there is no foreseeable need and that further inactivations be made as necessary upon completion of the study being made by the Air Force. Since the Air Force has for more than a year been seeking ways to support retention of improperly located squadrons, we recommended further that the Secretary of Defense require the Air Force to fully document the need and justification for any new missions proposed for these squadrons.

Also, inasmuch as planning for survival in the event of an enemy attack would concern the Army and Navy as well as the Air Force, and duplicating or overlapping capabilities may develop both within and among the military services, we recommended that the Secretary of Defense request the Joint Chiefs of Staff to review the Air Force survival plans in conjunction with the plans of the other military services. This review should include consideration, on a location-by-location basis, of not only the capability of Air Force Reserve Recovery Squadrons to perform their missions, but also whether the existing capability of Air National Guard, Army, Navy, and Marine units at the designated airports can be used to handle the Air Force dispersal and recovery missions.

Index No. 110

B-146852, February 11, 1964

Report on Unnecessary Costs Incurred in the Enlistment and Discharge of Unqualified Applicants for Regular and Reserve Forces

We found that the Navy incurred in 1962 unnecessary costs of more than \$1,245,000 because it enlisted some 1,900 Regular and Reserve applicants who were mentally unqualified and had to be discharged from military service during recruit training. The frequency of discharges of reservists increased in late 1962 and early 1963 after the Navy, in order to meet recruiting quotas, authorized its Reserve units to enlist reservists with lower mental qualifications for immediate active duty in the Regular Navy. As a result of this action, many individuals who had previously been rejected by the Regular Armed Forces as unfit for military service were accepted and later discharged because of their inability to absorb training. Thus, this policy, which was rescinded during our review, led to an increase in the number of unqualified applicants who were enlisted and discharged during recruit training.

Our review disclosed that the acceptance of mentally unqualified applicants was primarily caused by the fact that the Navy did not adequately screen Regular and Reserve personnel until after they had entered into the military service and had commenced active duty. In addition, there appears to be little doubt that, in the case of Naval Reserve discharges, pressures for meeting recruiting quotas played a prominent part in the acceptance of applicants who did not meet established mental qualifications standards.

The Navy took certain steps during and following our review to strengthen the preenlistment mental screening of its Regular and Reserve applicants. We are not in a position, at this time, to determine or comment on the extent to which these new testing procedures will, when implemented, more effectively screen out mentally unqualified applicants for the Regular Navy or the Naval Reserve. However, we plan to review the results of the actions taken at an appropriate time in the future.

MILITARY ASSISTANCE PROGRAM

Index No. 23

B-146785, May 29, 1963

Report on Ineffective Programing, Delivery, and Utilization of Aircraft and Related Equipment Furnished to the Portuguese Air Force under the Military Assistance Program

Our review disclosed ineffective programing, delivery, and utilization of F-86F aircraft and related equipment furnished to the Portuguese Air Force under the military assistance program.

We recognize that at the time the United States programed the F-86F aircraft and related equipment a reasonable basis existed for assuming that Portugal would develop the necessary maintenance and utilization capability. However, the delivery of equipment included in approved military assistance programs on the basis of anything less than a firm determination immediately before delivery that necessary utilization and maintenance capabilities exist involves the risk that these capabilities have not materialized because of unpredictable or unforeseen circumstances. Although planning and programing may be necessary on the basis of the anticipated development of such capabilities, we are of the opinion that actual deliveries should be based upon an existing or in-being capability to utilize, maintain, and absorb at the time of delivery. Adherence to these criteria would have resulted in the withholding of delivery of much of the equipment which has not been properly utilized and maintained in Portugal.

In view of the above, we proposed to the Secretary of Defense that aggressive efforts be undertaken to obtain the maximum utilization possible of equipment delivered and on hand in Portugal. To the extent that the Portuguese do not have and will not have the capability to utilize the equipment delivered, we proposed that the equipment be recovered by the United States and redistributed where appropriate to satisfy unfulfilled MAP requirements in other countries. We also proposed that further procurement and shipment of aircraft spare parts for the P2V-5 aircraft be suspended until proper requirements are computed and existing inventories utilized.

We recommended to the Secretary of Defense that, except as provided below, future deliveries of major end items included in approved military assistance programs be made only upon a written certification by the Chief of the Military Assistance Advisory Group based on a specific determination that the recipient

country has the necessary capability to effectively absorb, maintain, and utilize the items to be delivered. In those circumstances where for political purposes it is planned to program and deliver military equipment to a country contrary to this criterion, we recommended that the proposed action be subject to the approval of the Secretary of State and the Secretary of Defense. In each such instance, appropriate congressional committees should also be apprised of the circumstances and the basis for the proposed actions.

Index No. 25

B-133280, May 31, 1963

Report on Excessive Costs incurred for Rehabilitating to Original Appearance and Serviceability Military Equipment Donated to Foreign Nations under the Military Assistance Program Department of Defense

Our examination disclosed that the military departments spend millions of dollars each year to rehabilitate materiel, given to foreign nations as grant aid under the military assistance program, to higher standards of serviceability and appearance than similar materiel furnished to United States forces overseas. These additional costs are directly attributable to a Department of Defense memorandum issued in March 1957 to the military departments specifying that materiel for the military assistance program must be new or completely rehabilitated so as to possess original appearance and serviceability. The high standards set by the military departments to implement the Defense policy have caused excessive work which has been very costly and, in some cases, clearly uneconomical. In our opinion, there is normally no justifiable reason for expending the extra effort and substantial additional costs to dress up otherwise serviceable materiel, ready for issue to our own forces, to look like new for the military assistance program.

We proposed that, except in special circumstances, materiel given as grant aid under the military assistance program be overhauled, packed, and inspected to the same general standards of serviceability and appearance as those established for United States forces overseas.

The Department of Defense agreed that, with the exception of aircraft, the same general standards of serviceability should be applied for military assistance program recipients as for United States forces overseas. With respect to aircraft, the Department of the Air Force subsequently issued an instruction which significantly relaxes the unreasonable stringent criteria previously applied by the military departments in rehabilitating aircraft for the military assistance program. The Department of Defense agreed also that overzealous application of "like new" appearance criteria had been responsible for unwarranted costs and in December 1962 revised its policy substantially in conformance with our proposals. The military departments are now issuing implementing directives which, if properly complied with, should curtail the extra costs incurred preparing materiel for the Grant Aid Military Assistance Program.

Inasmuch as the inspections of equipment made by the Military Assistance Observer Teams at Army depots and arsenals duplicate the inspections made by the local Army inspectors, we recommended that the Secretary of Defense make a determination whether the inspections made by Military Assistance Observer Team personnel are necessary.

Index No. 34

B-132913, June 27, 1963

Unnecessary Payment by the United States of Costs Properly Chargeable to Japan for Administrative and Related Expenses of the Military Assistance Program for Japan

Our review disclosed that substantial amounts of appropriated funds had been expended unnecessarily since the inception of the Mutual Defense Assistance Agreement between the United States and Japan in 1954, because the United States Military Assistance Advisory Group failed to adequately review and analyze administrative expenditures and to obtain reimbursement from Japan for all expenses properly chargeable to Japan. As a result of our review, the Military Assistance Advisory Group agreed to undertake a review of prior expenditures and, to March 5, 1962, identified and obtained reimbursements from Japan totaling \$243,000. A continuation of this review through October 30, 1962, resulted in the identification and recovery of an additional \$160,000 which represented both prior and current expenditures eligible for reimbursement. These

amounts, totaling \$403,000, have been deposited in the United States Treasury as miscellaneous receipts.

Our review further disclosed that United States officials had not arranged for Japan to reimburse the United States Government for certain other costs incurred in performing military assistance program functions in Japan, although (1) the Foreign Assistance Act of 1961 permitted the United States to receive reimbursement from foreign governments for these costs and (2) the Mutual Defense Assistance Agreement with Japan did not contain any provisions which would exclude these costs from those eligible for reimbursement from Japan. For example, arrangements had not been made for Japan to reimburse the United States Government for costs of civilian and military pay, basic allowances of military personnel, and certain travel and transportation charges incurred for personnel and their household goods. The costs excluded from the amounts requested from Japan have amounted to several million dollars to date and will amount to as much as one million dollars annually in subsequent years.

Subsequent to our review, the Department of Defense prescribed new definitive policies and procedures for acquiring, using, accounting, and reporting for currencies and assistance-in-kind contributed by foreign governments for administrative and operating expenses of the military assistance program. If properly implemented, these new definitive policies and procedures will provide a basis for increasing the amount of administrative costs of the military assistance program to be borne by Japan. However, these new policies and procedures do not require that Japan, or any other country receiving military assistance, be requested to reimburse the United States for the cost of civilian and military pay and the basic allowances of military personnel assigned to Military Assistance Advisory Groups.

The Department of Defense informed us that civilian pay and military pay and allowances had not been requested from Japan on the basis that such a demand would be unauthorized and unprecedented. The Department further stated that negotiations to that end would have little or no chance of success and should not be undertaken unless to the clear advantage and in the evident best interests of the United States.

The President is permitted, under the Foreign Assistance Act of 1961, to arrange with countries receiving military assistance for reimbursement to the United States Government for costs of compensation and other benefits of officers and employees of the United States Government performing military assistance functions. Further, Japan agreed, in signing the bilateral agreement, to assume the costs of the administrative and related expenses incurred by the United States in providing military assistance. We recognize that requests for Japan to reimburse the United States for costs of administrative pay and allowances may not have been realistic in the past because of economic or other considerations. However, Japan's remarkable economic recovery and the United States' current international balance of payments deficit warrant review of the present policy. Accordingly, we recommended to the Secretary of Defense and to the Secretary of State that the present policy of the United States with respect to obtaining reimbursement from foreign governments for administrative costs of the military assistance program be reappraised with the view of requesting Japan, and other recipient countries which are economically capable, to reimburse the United States for all costs, including pay and allowances of involved civilian and military personnel.

Index No. 45

B-133134, July 16, 1963

Report on Ineffective Maintenance and Utilization of Equipment Furnished to Iran Under the Military Assistance Program

Our review disclosed that a substantial amount of the equipment delivered to Iran under the military assistance program had not been effectively utilized and maintained and that this condition was aggravated because the United States Military Assistance Advisory Group in Iran had not taken effective action to assist Iranian Armed Forces to overcome existing deficiencies.

Our review showed that the inability on the part of Iran to effectively utilize and maintain equipment programed and delivered under the military assistance program was attributable to (1) continuing critical shortages of trained personnel, tools, and maintenance publications, (2) limited field and depot maintenance capabilities, (3) inadequate supply procedures, and (4) shortages of gasoline in Army units.

In view of the above, we proposed to the Secretary of Defense that the capability of the Iranian Armed Forces to effectively maintain and utilize equipment on hand be reevaluated and that future deliveries be adjusted in line with this capability. We also made several specific proposals for improvement in United States program administration designed to assist the Iranian Armed Forces to better utilize and maintain equipment furnished under the military assistance program.

The Department of Defense comments indicate that aggressive action is now being taken to insure that no equipment will be delivered to Iran which will be beyond that country's capability to absorb, maintain, and utilize. The specific actions being taken, as cited by the Department of Defense, to assist the Iranian Armed Forces to effectively maintain and utilize the equipment already delivered should result in a marked improvement in the conditions noted during our review.

Index No. 46

B-133134, July 30, 1963

Report on Inadequate Administration of Military Budget Support Funds Provided to Iran Under the Foreign Assistance Program

The details of our findings in this review and recommendation for corrective action are classified secret information.

GENERAL

Index No. 15

B-133201, April 18, 1963

Report on Review of the Excessive Costs of Long-distance Message Communications in the Armed Services

Our review disclosed that more than a million dollars is being expended unnecessarily each year by the military services because messages are being transmitted long distances by commercial means without fully utilizing the existing military networks and because the most economical type of commercial message is not being used.

In commenting on our findings and conclusions, the Department of Defense agreed that more effective interservice utilization of communication facilities is required; but the Department did not agree that the savings would be as large as we estimated. We believe, however, that our estimate of potential savings gave appropriate consideration to the various pertinent factors mentioned by the Department.

We had proposed that the regulations of the military services dealing with message handling and routing be clarified and contain specific instructions for the use of all military networks and the transmission of commercial messages by the most economical means. Although these regulations have recently been changed to emphasize the use by one military service of the networks of the other military services, they do not yet contain the specific instructions which would enable communication personnel to easily route messages by the most economical means.

We recommended, therefore, that the Secretary of Defense take certain actions to assure more economical transmission of long-distance messages.

Index No. 36

B-133226, June 28, 1963

Unnecessary Costs to be Incurred Under the Military Departments' Proposals for Continued Operation of Separate Army and Navy Hospitals in the San Francisco Bay Area, California

Our review disclosed that the Department of Defense will incur unnecessary annual costs of about \$8.2 million under a plan for the continued separate operation of Letterman Army and Oakland Naval Hospitals in the San Francisco Bay area. In addition, the plans being considered by the Department of Defense for construction of separate new hospitals at these locations will result in costs of about \$10 million more than necessary to provide adequate hospital facilities for joint service use. These unnecessary expenditures can be avoided by constructing a single modern hospital in the Oakland-Alameda area and an addition to the Travis Air Force Hospital, and by effective joint use of these facilities. Effective joint use can be achieved by improved management of the patient workload through (1) eliminating the unnecessary transfers of patients to the San Francisco Bay area, (2) making greater use of available civilian hospitals for the care of dependents, and (3) eliminating the requirement for

construction of facilities to care for retired personnel, their dependents, and others, entitled to treatment only if space is available.

We proposed to the Secretary of Defense that necessary replacement of military hospital facilities in the San Francisco Bay area be accomplished by a single replacement hospital of 1,000 beds and a 200-bed addition to the modern hospital at Travis Air Force Base in lieu of the services' proposals for replacement and separate operation of the present Letterman and Oakland Hospitals. We proposed, also, that the Secretary of Defense require the military departments to provide more adequate data on the operation of military hospitals so that the real needs for military hospital facilities could be more accurately and consistently determined.

In its reply, the Department of Defense stated that a thorough analysis of the total requirements for hospital services and the best methods of satisfying them in the most economical manner was needed before authorization for either the Army or the Navy project would be requested from the Congress. The Department of Defense also agreed that bed space for retired personnel should not be included in computing hospital construction requirements and that more adequate data on the use of hospital facilities should be used in determining requirements.

Our discussions with the principal medical officials of the three services disclosed considerable reluctance on the part of the Army and Navy medical officers to make joint use of facilities, either presently available or planned for construction, although each of the services expressed full confidence in the quality of medical care provided by the other. Because of this attitude, the Department of Defense is likely to encounter the same lack of cooperative effort on the part of the individual services toward the more effective and economical joint use of medical activities as we disclosed in our reports on the duplication of development effort (B-146713 and B-146714, May 1962), on failure to standardize on certain common items (B-133177, October 1961), and on the interservice utilization of excess supplies of various items (B-133313, May 1960, and B-133336, November 1960).

In view of the magnitude of the possible savings, we recommended that the Secretary of Defense take the necessary action to consolidate military hospital services in the San Francisco Bay area into one modern replacement hospital of 1,000 beds in the Oakland-Alameda area and the modern facility at Travis Hospital with addition of 200 beds. Further, we recommended that the Secretary of Defense require the military departments to improve the management of the patient workload to accomplish more effective joint utilization of existing hospital facilities and to assure realistic planning of military hospital construction on the basis of full joint use of all available military hospital facilities.

Index No. 56

B-133102, August 30, 1963

Report on Illegal Use of Operation and Maintenance Funds for Rehabilitation and Construction of Family Housing and Construction of a Related Facility of the Department of Defense

In our review at 32 Army, Navy, Air Force, and Marine Corps installations, we found that at seven installations—Schilling Air Force Base, Kansas; Fairchild Air Force Base, Washington; Robins Air Force Base, Georgia; Chanute Air Force Base, Illinois; Fort Riley, Kansas; Naval Air Station, Whidbey Island, Washington; and William Beaumont Army Hospital, Texas—Operation and Maintenance funds amounting to about \$1.1 million were illegally spent (1) to finance rehabilitation work on Wherry housing (\$800,000), (2) for supplemental work or additional features on Capehart housing projects (\$190,000), and (3) for construction of a gas distribution system (\$92,000). The illegal use of Operation and Maintenance funds involving Wherry housing violated section 3678, Revised Statutes. The illegal use of funds involving Capehart housing and the gas distribution system violated sections 3679, 3678, and 3733, Revised Statutes, and title VIII of the National Housing Act, as amended.

The circumstances surrounding each violation of law were of such nature that the officials responsible for authorizing the illegal expenditure of funds should have known that their actions were highly questionable, if not illegal. Aside from the violations of law, the results of the improper actions by the authorizing officials for all intents and purposes circumvented or disregarded military con-

struction authorization processes established by the Congress to control and limit the extent of military construction. The illegally financed projects included landscaping and the installation of storm windows, clotheslines, redwood fencing, and central television antennas.

We have informed the Secretary of Defense that action must be taken to charge the costs applicable to Wherry housing to the Family Housing Management Account and to reimburse the Operations and Maintenance appropriations, as appropriate. In the cases of construction of additions and improvements to Capehart housing and construction of a gas distribution system, neither authority nor funds were available legally for such work. Therefore, as required by law, we issued notices of exception in settlement of the accounts of the disbursing officers for the amounts illegally disbursed. Also, since these disbursements constitute violations of section 3679, Revised Statutes, they must be reported by the heads of the military departments involved to the President and the Congress to fix responsibility and disclose the disciplinary actions taken.

It is fully recognized that the illegal payments were caused by the actions of the authorizing officials—not the disbursing officers. With this in mind, we recommended that the Secretary of Defense bring the findings in this report and our reports on illegal or improper use of funds for construction of family housing (B-133259, January 13, 1960) and financing of an airfield (B-133316, January 24, 1961) to the attention of defense officials responsible for expenditure of Government funds to show the need for determining the propriety of the expenditure before authorization. We believe that the officials responsible for the illegal expenditures cited in this report did not demonstrate a sense of individual responsibility necessary in the management of Government activities. Under these circumstances, we think it essential that the military departments consider the manner in which this responsibility was met in evaluating the performance of these officials and in making future management assignments.

Index No. 75

B-133102, October 30, 1963

Unnecessary Costs Incurred Because of Administrative Negligence and Poor Design in the Construction of Two Capehart Housing Projects, Department of the Air Force

We found that approximately \$163,000 was spent or will be spent to correct damage caused by administrative negligence and poor design in connection with construction of Capehart projects at Myrtle Beach Air Force Base, South Carolina, and Chanute Air Force Base, Illinois. About \$36,000 was spent for repair and repainting of siding because of failure to use the proper exterior paint in the construction of 800 Capehart houses at Myrtle Beach Air Force Base. About \$127,000 will be required to correct defects in the drainage system serving a Capehart housing project at Chanute Air Force Base, which were known in advance of construction, and to repair damage from flooding.

At Myrtle Beach Air Force Base we found that the use of stain and the manner of application prescribed in the construction contract were not in accordance with the accepted painting practice in the Myrtle Beach area or with the standards of either the Federal Housing Administration or the Air Force. Nevertheless, the Air Force approved the specification although available information indicated that it might not provide adequate protection. Moreover, the Air Force did not take action to prevent further deterioration of the siding for at least a year after the inadequacy of the stain was identified.

At Chanute Air Force Base, we found that the Air Force had investigated the inadequacies of the storm drainage system 2 years before award of the contract for Capehart construction and had ample time to complete the corrective measures necessary. We found that the design of the project was predicted on correcting the known inadequacies and, in addition, that the contractor had pointed out during construction that the system was inadequate. However, no action was taken by the Air Force to make the changes necessary to assure proper functioning of the drainage system.

The Assistant Secretary of Defense (Installations and Logistics) stated that, in light of the circumstances cited by the Air Force, it did not appear that there was negligence or poor design in the construction of these two housing projects.

We believe that the plans and specifications accepted by the Air Force for these projects required correction to adequately provide for significant local

conditions and that the problems related to these conditions were known or pointed out to the engineers responsible for the Capehart housing projects and the administration of the construction contracts prior to the beginning of the construction. In each case reviewed, the contracting officers had both the responsibility and the authority to seek a solution to these known problems and to require correction. The failure to do so resulted in unnecessary costs to the Government. These officials failed to demonstrate a sense of individual responsibility for economy in managing their activity and protecting Government property. Under these circumstances, the Air Force should consider the manner in which this responsibility was met in evaluating the performance of these officials and in making future management assignments.

We recommended that the Secretary of Defense bring the findings in this report to the attention of Defense officials responsible for construction of family housing and emphasize the need for prompt correction of known design problems before or during construction to avoid excessive costs to the Government.

APPENDIX 4

GSA SELECTED STATISTICS

[July 1, 1953, to December 31, 1963]

SOURCE OF DATA

This publication contains selected financial and operating statistics covering GSA's operations and growth for the fiscal years 1954-63 and the first half of fiscal year 1964. These statistics are presented for each GSA "service" by major program activity.

Financial data and related operating statistics, where applicable, are based on actual year data contained in budget justifications submitted to the Bureau of the Budget. Data not contained in budget submissions are based on other official published financial and operating reports.

As indicated by appropriate footnotes, data for fiscal year 1963 and prior years have been adjusted to show comparative transfers to Transportation and Communications Service and Utilization and Disposal Service, both of which were established subsequent to June 30, 1961.

Public Buildings Service—Selected statistics, fiscal years 1954-64

[Dollars in millions]

	1954	1955	1956	1957	1958	1959	1960	1961	1962	1963	1st half 1964
Operating expenses (obligations):											
Operating expenses, PBS.....	\$91.8	\$106.4	\$106.6	\$114.4	\$130.5	\$139.9	\$150.1	\$164.6	\$179.5	\$193.6	\$100.5
Emergency operating expenses.....	19.6										
Repair and improvement:											
Obligations.....	18.3	18.2	33.1	45.8	76.0	75.9	53.1	61.2	62.6	64.8	31.6
Workload (millions of square feet).....	102.3	105.0	108.5	111.2	114.4	114.4	115.6	121.4	128.5	144.1	
Buildings management:											
Income by source:											
Operating expenses, PBS.....			\$108.3	\$116.3	\$129.0	\$130.7	\$138.0	\$152.3	\$163.6	\$176.3	\$95.7
Repair and improvement.....	(1)	(1)	6.9	10.2	29.0	24.1	14.0	14.2	16.2	15.9	7.8
Other GSA funds.....			7.6	9.5	8.0	8.9	7.9	7.9	9.1	11.6	5.4
Other agencies.....			47.8	51.7	55.6	56.4	66.3	67.7	70.3	71.6	29.3
Total.....	² 156.4	² 153.3	² 170.6	² 187.7	² 221.6	220.1	226.2	242.1	259.2	275.4	138.2
Expense by type:											
Government-owned space.....	59.3	60.2	66.4	62.6	81.5	89.7	94.5	111.7	118.6	121.9	62.5
Leased space.....	68.9	61.2	62.4	66.4	73.2	80.4	86.9	88.5	96.1	113.3	63.2
Other.....	16.2	19.5	27.2	43.1	49.5	49.8	44.5	42.6	44.3	38.4	9.7
Total.....	144.4	140.9	156.0	172.1	204.2	219.9	225.9	242.8	259.0	273.6	135.4

Buildings management workload (millions of average net square feet):												
Government-owned space, financed by—												
Operating expenses (see above).....	56.3	56.4	56.4	54.9	54.9	55.1	57.7	62.9	69.2	73.5	78.9	
Other agencies and other GSA funds.....	9.1	9.7	10.9	14.6	19.3	22.9	26.0	29.9	35.5	40.1	45.1	
Total.....	65.4	66.1	67.3	69.5	74.2	78.0	83.7	92.8	104.7	113.6	124.0	
Leased space, financed by—												
Operating expenses (see above).....	28.1	23.7	20.3	20.5	21.4	22.0	22.1	22.0	24.0	26.9	29.4	
Other agencies and other GSA funds.....	10.7	12.1	13.1	13.5	14.4	14.5	14.0	13.9	13.0	14.0	13.4	
Total.....	38.8	35.8	33.4	34.0	35.8	36.5	36.1	35.9	37.0	40.9	42.8	
Total, all space.....	104.2	101.9	100.7	103.5	110.0	114.5	119.8	128.7	141.7	154.5	166.8	
Construction:												
GSA direct:												
Construction:												
Appropriations.....	\$1.2	\$3.0	\$5.7	\$0.5	\$3.9	\$173.1	-----	\$166.0	\$215.4	\$190.0	\$157.6	
Obligations.....	\$8.2	\$18.6	\$4.3	\$5.5	\$4.1	\$55.0	\$95.7	\$127.4	\$79.4	\$246.3	\$28.9	
Sites and expenses:												
Appropriations.....			\$15.0	\$5.0	\$20.3	\$39.9	\$25.0	\$21.0	\$24.9	\$30.5	\$40.0	
Obligations.....	\$0.1	\$0.2	\$3.6	\$13.2	\$7.9	\$30.3	\$8.8	\$18.9	\$14.5	\$36.2	\$13.5	
Payments, purchase contracts:												
Appropriations.....				\$0.2	\$1.3	\$0.3	\$1.7	\$4.0	\$5.2	\$5.4	\$5.2	
Obligations.....					\$0.1	\$0.1	\$1.3	\$3.7	\$4.7	\$5.0	\$2.6	
Transfer to GSA, construction:												
Appropriation.....	\$4.1	\$7.1	\$17.5	\$65.4	\$43.5	\$133.4	\$24.3	\$56.3	\$56.1	\$51.8	\$71.8	
Obligations.....	\$6.7	\$7.6	\$14.5	\$59.5	\$39.6	\$85.8	\$46.6	\$62.6	\$49.3	\$41.2	\$61.8	
Number of employees, end of year:												
Central office.....	304	303	329	367	439	453	422	446	434	465	451	
Field.....	20,376	19,316	19,588	19,786	19,036	19,873	20,045	20,490	19,793	20,122	20,348	
Total.....	20,680	19,619	19,917	20,153	20,375	20,326	20,467	20,936	20,227	20,587	20,799	

¹ Not available.

² Includes telecommunication income for the following fiscal years not identifiable by source: 1954, \$12,000,000; 1955, \$12,900,000; 1956, \$14,400,000; 1957, \$15,500,000; 1958, \$17,100,000.

³ Decrease represents transfers to Transportation and Communications Service.

Federal Supply Service—Selected statistics, fiscal years 1954-64

[Dollars in millions]

	1954	1955	1956	1957	1958	1959	1960	1961	1962	1963	1st half 1964
Stores depot sales, including fuel.....	\$52.8	\$75.9	\$96.4	\$116.4	\$120.7	\$145.5	\$154.3	\$183.2	\$229.6	\$259.7	\$131.1
Direct delivery sales, including items paid direct by using agency.....	\$96.0	\$148.2	\$112.8	\$148.0	\$140.5	\$176.7	\$153.1	\$160.3	\$201.9	\$213.8	\$64.0
General supply fund inventories, end of year.....	\$21.4	\$26.3	\$29.8	\$37.1	\$41.1	\$53.1	\$55.5	\$66.3	\$94.8	\$105.6	\$120.5
Federal supply schedule purchases.....	\$275.0	\$308.9	\$333.2	\$373.7	\$411.3	\$511.7	\$540.2	\$644.8	\$697.1	\$782.0	\$445.8
Operating expense obligations:											
Expenses, supply distribution.....	\$13.8	\$13.1	\$15.0	\$16.1	\$18.5	\$20.9	¹ \$22.1	¹ \$24.9	\$30.1	(?)	(?)
Operating expenses, FSS: Definite—appropriation ³	\$1.6	\$2.0	\$2.6	\$3.0	\$3.4	\$3.7	¹ \$2.9	¹ \$3.4	⁴ \$4.0	\$39.8	\$22.5
Other (advances and reimbursements).....	\$0.2	\$1.3	\$1.7	\$2.0	\$2.8	\$3.5	\$3.5	\$4.1	\$3.8	⁵ \$4.1	⁵ \$2.4
Number of employees, end of year: Expenses, supply distribution:											
Central office.....	138	142	268	300	319	297	343	375	433	(?)	(?)
Field.....	1,286	1,478	1,479	1,497	1,464	1,522	1,553	1,753	2,120	(?)	(?)
Total.....	1,424	1,620	1,747	1,797	1,783	1,819	1,896	2,128	2,553		
All other: ³											
Central office.....	96	106	202	247	246	254	209	249	297	720	788
Field.....	265	289	279	321	342	387	374	465	294	2,709	3,040
Total.....	361	395	481	568	588	641	583	714	⁶ 591	3,429	⁷ 3,828
Total, Federal Supply Service: ³											
Central office.....	234	248	470	547	575	563	568	638	730	720	788
Field.....	1,825	1,930	1,959	2,102	2,144	2,284	2,376	2,703	2,414	2,709	3,040
Total.....	2,059	2,178	2,429	2,649	2,719	2,847	2,944	3,341	3,144	3,429	3,828

¹ Reflects transfers of costs of buying and inspection relating to Federal supply schedules from "Operating expenses, FSS" to "Expense, supply distribution."

² Financed from OE-FSS effective Aug. 1, 1962.

³ Adjusted to show comparative transfers to "Operating expenses, Utilization and Disposal Service," beginning in fiscal year 1962.

⁴ Adjusted to exclude costs for "Motor vehicle management" transferred to TCS and "Property rehabilitation" transferred to UDS.

⁵ Reimbursable activity only.

⁶ Excludes 322 employees assigned to OCDM warehousing program; transferred to DMS in August 1962.

⁷ Includes 3,330 employees financed from OE, FSS, and 498 from reimbursable funds

Utilization and Disposal Service: Selected statistics, fiscal years 1954-64

[Dollars in millions]

80-044-04-11

	1954	1955	1956	1957	1958	1959	1960	1961	1962	1963	1st half 1964
Real property:											
Excess property (acquisition cost):											
Excess workload for year.....	\$212	\$191	\$333	\$184	\$449	\$671	\$1,131	\$998	\$1,162	\$1,262	\$800
Utilization transfers.....	13	87	11	6	32	16	10	79	87	114	93
Withdrawn by holding agency.....	4	9	8	7	11	13	24	8	10	31	15
Determined Surplus.....	132	57	261	96	312	427	766	545	657	675	311
Inventory end of year.....	63	38	53	75	94	215	331	366	408	442	381
Surplus property (acquisition cost):											
Surplus workload for year.....	322	278	417	358	460	704	1,293	1,376	1,398	1,361	1,165
Sold.....	30	31	87	27	80	81	320	413	442	360	192
Donations.....	54	26	19	26	26	31	67	116	91	69	22
Recalled from surplus.....	3	39	5	12	16	7	29	27	100	53	32
Inventory end of year.....	235	182	306	293	338	585	877	820	765	879	919
Sales:											
Appraised FM value.....		\$7.5	\$26.4	\$9.7	\$31.1	\$27.1	\$71.4	\$71.6	\$71.5	\$75.0	\$48.1
Sales price.....	\$9.9	\$7.4	\$26.0	\$11.6	\$40.1	\$31.0	\$78.0	\$71.6	\$78.9	\$77.8	\$49.9
Percent return.....		98.7	108.3	119.6	128.9	114.4	109.2	100.0	110.3	103.7	103.8
Personal property utilization (acquisition cost):											
Excess property workload.....	\$764.7	\$809.4	\$620.3	\$642.4	\$1,093.4	\$1,258.0	\$1,500.0	\$1,680.7	\$1,473.8	\$1,828.4	\$1,361.1
Utilization transfers.....	\$57.5	\$71.1	\$94.9	\$83.2	\$138.0	\$141.4	\$218.0	\$310.1	\$362.7	\$475.1	\$329.5
Donations.....	\$99.4	\$130.1	\$194.1	\$212.8	\$289.0	\$361.0	\$413.0	\$387.7	\$350.7	\$343.8	\$194.8
Usable property sold ¹		\$2.3	\$2.3	\$2.0	\$11.7	\$19.3	\$17.1	\$24.4	\$39.8	\$39.5	\$22.6
Sales price.....		\$0.7	\$0.8	\$0.6	\$1.7	\$1.7	\$2.7	\$3.6	\$5.8	\$7.5	\$3.6
Percent return.....		30.4	34.8	3.0	1.45	8.8	15.8	14.8	14.6	18.9	15.7
Operating expenses (costs):²											
Real property activities.....	\$2.6	\$1.5	\$2.7	\$2.3	\$2.3	\$2.4	\$3.6	\$3.6	\$4.0	\$4.5	\$1.9
Personal property activities.....	.5	.6	.8	1.1	1.6	1.9	2.2	3.0	4.0	4.6	2.4
Subtotal.....	3.1	2.1	3.5	3.4	3.9	4.3	5.8	6.6	8.0	9.1	4.3
Expenses, disposal of surplus real and related personal property.....		.2	.3	.4	.7	1.0	1.9	1.2	1.2	1.0	.4
Total.....	3.1	\$2.3	3.8	3.8	4.6	5.3	7.7	7.8	9.2	10.1	4.7

See footnotes at end of table on p. 157.

Utilization and Disposal Service: Selected statistics, fiscal years 1954-64—Continued

	1954	1955	1956	1957	1958	1959	1960	1961	1962	1963	1st half 1964
Number of employees, end of year: ²											
Central office.....	30	37	50	71	71	82	87	96	122	128	116
Field.....	121	129	166	225	278	281	330	401	499	529	525
Subtotal.....	151	166	216	296	349	363	417	497	621	657	641
Reimbursable.....									5	5	4
Total.....	151	166	216	296	349	363	417	497	626	662	645

National Archives and Records Service: Selected statistics, fiscal years 1954-64

Regional records centers (thousand cubic feet):											
Accessions.....	712	659	733	629	581	692	688	694	741	735	370
Disposals.....	170	248	285	325	346	405	411	570	537	555	187
Inventory, end of year.....	2,083	2,472	2,908	3,186	3,391	4,677	5,301	5,362	5,438	5,784	5,969
Reference services (thousands):											
Regional centers.....	698	900	1,226	1,663	1,944	2,621	2,946	2,972	3,110	3,125	1,557
National personnel records centers.....	583	601	642	685	559	530	483	1,842	1,764	1,690	767
Operating expenses (obligations in millions):	\$6.2	\$6.3	\$6.6	\$7.0	\$7.9	\$9.1	\$9.4	\$14.2	\$13.9	\$14.4	\$7.2
All records centers.....	3.4	3.4	3.8	4.0	4.2	4.8	5.0	8.9	8.6	8.6	4.2
All other activities.....	2.8	2.9	2.8	3.0	3.7	4.3	4.4	5.3	5.3	5.8	3.0
Number of employees, end of year.....	919	918	969	991	1,096	1,156	1,168	1,846	1,848	1,795	1,728
All records centers.....	534	534	584	590	680	658	655	1,310	1,306	1,235	1,180
All other activities.....	385	384	385	401	416	498	513	536	542	560	548
Central office.....	336	336	338	353	357	440	452	470	464	492	477
Field.....	583	582	631	638	739	716	716	1,376	1,384	1,303	1,251

Transportation and Communications Service¹—Selected statistics, fiscal years 1954-64

Regulatory proceedings:											
Transportation cases:											
Entered.....	4	5	7	21	16	9	12	9	2	10	6
Concluded.....	3	3	6	7	18	7	11	14	4	9	3
Pending, end of year.....	5	7	8	22	20	22	23	18	16	17	20

Utility cases, GSA:											
Entered.....	3	1		6	7	2	5	4	5	2	3
Concluded.....	1	3	1	2	3	3	7	4	2	5	2
Pending, end of year.....	4	2	1	5	9	8	6	6	9	5	6
Utility cases, delegated.....					2		10	11	9	4	2
Communications, including SAGE cases:											
Entered.....				2	1	3	7	9	2	7	2
Concluded.....							2	3	2	4	1
Pending, end of year.....				2	3	6	9	15	15	19	20
Estimated freight savings (millions).....	\$6.6	\$8.1	\$9.3	\$9.7	\$12.1	\$16.9	\$15.6	\$24.1	\$16.9	\$19.1	\$5.5
Interagency motor vehicles pools: ²											
Studios completed (cumulative).....		2	14	29	42	56	68	73	78	78	83
Pools activated (cumulative).....			12	22	33	44	56	60	66	75	76
Operating expense (obligations in thousands) ³	\$1,399	\$1,579	\$1,694	\$1,959	\$2,515	\$2,995	\$2,977	\$3,305	\$4,046	\$4,800	\$2,485
Operating expenses.....	1,399	1,573	1,672	1,829	2,305	2,758	2,755	3,057	3,807	4,554	2,382
Other.....		6	22	130	210	237	222	248	239	246	103
Federal telecommunications fund (millions): ⁴											
Income.....	\$12.0	\$12.0	\$14.4	\$15.5	\$17.1	\$19.3	\$21.1	\$22.7	\$27.1	\$33.6	\$19.7
Expense.....	\$12.0	\$12.0	\$14.4	\$15.4	\$17.0	\$19.4	\$21.2	\$22.8	\$26.7	\$33.3	\$18.5
Number of employees, end of year:											
Regular:											
Central office.....	147	178	163	193	214	193	165	165	190	223	214
Field.....	89	90	101	98	125	125	169	168	183	195	187
Total.....	236	268	264	291	339	318	334	333	373	418	401
General supply fund: ⁵											
Central office.....					10	12	16	14	12	12	14
Field.....	274	163	201	284	338	375	449	485	502	535	546
Total.....	274	163	201	284	348	387	465	499	514	547	560
Federal telecommunications fund: ⁶ Field.....									1,274	1,366	1,361
Total, Transportation and Communications Service:											
Central office.....	147	178	163	193	224	205	181	179	202	235	228
Field.....	363	253	302	382	463	500	618	653	1,959	2,096	2,094
Total.....	510	431	465	575	687	705	799	832	2,161	2,331	2,322

¹ GSA conducted sales for other agencies commenced in fiscal year 1959.

² Adjusted to show comparative transfers from "Operating expenses, Public Buildings Service (real property)," and "Operating expenses, Federal Supply Service (personal property)."

³ Established in fiscal year 1962.

⁴ Transferred from Federal Supply Service during fiscal year 1962.

⁵ "Motor vehicle" and "Communications management" transferred during fiscal year 1962 from FSS and PBS, respectively.

⁶ Activated July 1, 1963.

⁷ Telecommunications function transferred from Public Buildings Service during fiscal year 1962.

Defense Materials Service—Selected statistics, fiscal years 1954-64

[Dollars in millions]

	1954	1955	1956	1957	1958	1959	1960	1961	1962	1963	1st half 1964
All programs:											
Inventories, end of year:											
National stockpile.....	\$4,679.0	\$5,399.7	\$5,717.2	\$6,041.8	\$6,169.0	\$6,216.2	\$6,153.5	\$6,107.2	\$6,049.6	\$5,816.5	\$5,756.5
Supplemental stockpile.....				216.6	291.9	604.1	754.2	950.6	1,141.1	1,276.1	1,329.1
Defense production.....	374.3	441.7	567.2	679.6	1,140.1	1,368.2	1,448.7	1,482.9	1,496.8	1,499.5	1,483.6
Department of Interior.....				17.9	23.0						
RFC/FFC.....				9.2	9.5	9.5	9.5	9.5			
Commodity Credit Corporation.....		49.3	162.6	143.5	226.5	98.5	119.1	108.8	99.9	57.4	23.7
Total.....	5,053.3	5,890.7	6,447.0	7,108.6	7,860.0	8,296.5	8,485.0	8,659.0	8,786.4	8,649.5	8,592.9
Number of storage locations, end of year (excludes NIER)...	313	273	242	224	216	217	215	213	208	165	162
OCDM warehousing:											
Warehouses in operation.....	10	15	18	21	24	23	22	22	21	161	156
Inventory, end of year.....	\$51.0	\$58.5	\$73.3	\$85.0	\$96.2	\$99.5	\$99.5	\$100.8	\$117.5	*\$208.9	*\$216.9
Strategic and critical materials, expenses (obligations):											
New materials purchases.....	\$211.3	\$580.8	\$229.4	\$191.2	\$80.8	\$4.3	\$1.6	\$0.6	\$1.0	\$0.7	-----
Upgrading of materials.....					2.3	4.5	.6	3.6	.4	.1	-----
Rotation purchases.....	54.5	58.2	90.1	70.2	40.2	45.1	14.4	8.5	13.4	.4	-----
Storage, industrial equipment, and operating expenses.....	26.9	21.0	17.2	18.2	20.3	25.1	19.0	17.6	17.1	16.5	7.2
Total.....	292.7	660.0	336.7	279.6	143.6	82.0	35.6	30.3	31.9	17.7	7.2
Defense Production Act:											
Cumulative gross transactions contracted, end of year.....	\$6,356.4	\$7,187.2	\$7,113.3	\$7,315.9	\$7,550.1	\$7,489.9	\$7,492.7	\$7,481.3	\$7,608.7	\$7,566.0	\$7,609.0
Deliveries of strategic materials.....	\$397.3	\$482.0	\$266.7	\$216.2	\$495.2	\$248.6	\$135.1	\$72.0	\$57.0	\$21.5	\$3.9
Gross expenditures for operations.....	\$484.2	\$544.6	\$349.6	\$281.7	\$552.0	\$310.1	\$224.1	\$193.8	\$129.9	\$90.8	\$40.1
Number of employees, end of year:											
Central office.....	297	251	248	233	214	176	152	143	138	138	131
Field.....	394	400	398	685	596	553	513	525	793	909	912
Total.....	691	651	646	918	810	729	665	668	*931	1,047	1,043

¹ Includes storage locations under fallout shelter supply program: June 30, 1963, 40; Dec. 31, 1963, 37. No activity prior to fiscal year 1963.

² Includes prepositioned hospitals.

³ Includes personnel transferred from FSS for CD Warehousing: Central office, 11; field, 311; total, 322.

Relationship of AO fund employment to total GSA employment—Selected statistics, fiscal years 1954-64

	1954	1955	1956	1957	1958	1959	1960	1961	1962	1963	1st half 1964
Total GSA employment.....	26,765	25,729	26,426	27,410	27,891	27,946	28,213	29,944	31,519	32,650	33,140
Total AO fund employment:											
Number.....	1,878	1,772	1,826	1,951	2,009	2,005	¹ 1,960	¹ 1,982	2,157	2,297	2,258
Percent of total GSA.....	7.0	6.9	6.9	7.1	7.2	7.2	6.9	6.6	6.8	7.0	6.8
Finance and administration.....	1,772	1,676	1,729	1,834	1,884	1,879	1,829	1,857	2,023	2,159	2,118
Percent of total GSA.....	6.6	6.5	6.5	6.7	6.8	6.7	6.4	6.2	6.4	6.6	6.4
Legal services.....	106	96	97	117	125	126	131	125	134	138	140
Percent of total GSA.....	0.4	0.4	0.4	0.4	0.4	0.5	0.5	0.4	0.4	0.4	0.4

¹ Gives effect to comparative transfer of employees to "Salaries and expenses, Office of Administrator."

Savings and economies accruing to the Government as a result of GSA operations, fiscal years 1953, 1960, 1963, and Cumulative 1950-63

[In millions of dollars]

Selected annual totals	1953	1960	1963	Cumulative, 1950-63
1. Savings through improvement of operating procedures and techniques and increased productivity in supply, transportation, and communications operations:				
(a) Savings from large volume buying of supplies and materials for distribution through the GSA supply system and FSS schedule purchasing by using agencies.....	\$69.5	\$157.6	\$233.8	\$1,634.0
(b) Reduction in freight costs of GSA and other Government agencies through consolidation of shipments, negotiation of rates with carriers, etc.....	4.6	15.6	19.0	148.1
(c) Reduction in public utilities and communications costs through operation of the Federal Telecommunications System, consolidation of switchboards, execution of areawide contracts, negotiation and representation before regulatory bodies, etc.....	3.2	9.5	18.6	82.4
2. Savings from more effective utilization of Government resources and improvement of consolidated services:				
(a) Reduction in costs of storing strategic materials inventories through greater use of Government excess facilities (primarily DOD), permitting cancellation of commercial warehouse leases.....	1.2	1.3	.5	15.7
(b) Avoiding rental of office space by increased emphasis on moving dead or inactive records to GSA records centers to release substantial quantities of office space for reuse. Also, filing equipment, steel shelves, and transfer cases were put back into active use, thus avoiding new procurement of similar items.....	4.2	4.3	4.7	47.2
(c) Increased emphasis on better space utilization, the conversion of warehouse and other special use space to office space, and the conversion of excess military and post office installations to office space, have avoided the leasing of space to house the Federal establishment.....	11.7	22.8	14.5	246.6
(d) The expansion of the motor pool program (activated in 1954) as compared with pre-pool operations by agencies continues to pay dividends to the Government—annual savings.....		5.4	9.4	40.1
(e) The transfer of excess personal and real property among Federal agencies for reuse avoids expenditures for procurement of similar items. The recent establishment of the Utilization and Disposal Service in GSA has brought together the know-how which was previously dispersed within the organization and has contributed to growth of the program as well as actually realizing a better return on sales:				
(1) Utilization transfers (acquisition cost).....	50.1	220.3	609.7	2,530.0
(2) Proceeds from sales of—				
(a) Personal property.....	(1)	2.7	7.5	25.1
(b) Real property.....	3.0	78.0	77.8	477.6
(3) Savings due to rehabilitation of personal property and distribution of such property through the GSA supply system (equivalent replacement).....	(1)	6.3	17.9	57.6
3. Through constant attention to improving our organization, making maximum use of automatic data processing techniques, expansion of common services for use by other agencies, and improvement of our operating procedures, we have made savings which may be termed "administrative improvements."				
(a) Expansion of GSA printing plant operations for use by other agencies in the field.....	0	(1)	.6	1.7
(b) Automation of mass paperwork operations in accounting, payrolling, billings, and collections.....	.1	1.5	.7	11.4
(c) Economies resulting from audit of contractor operations and adoption of employee suggestions for improvement of procedures.....	2.0	.3	3.1	25.3
Grand total.....	149.6	525.6	1,017.8	5,342.8

¹ Not available.

CONSOLIDATION OF DUPLICATORY FUNCTIONS

By joint agreement between the Secretary of Defense and the Administrator, General Services Administration, the facilities of the two agencies which were devoted to the procurement, distribution, and supply management for all paints and handtools were consolidated into the General Services Administration effective January 1, 1964. Present indications are that this merger will eliminate at least 200 positions, reduce the Government-wide inventory investment by about \$40 million, and permit more efficient utilization of warehousing facilities formerly devoted to this activity.

In addition to the foregoing transfer, similar joint agreements have enabled GSA (1) to assist in the balance-of-payments program by expanding its supply support activities to a multitude of Defense Department oversea activities, (2) to share computer tapes with DOD to enhance the total Government-wide cataloging program, thus reducing the costs of catalog maintenance, (3) to standardize many of the items carried in the GSA/DOD supply systems, thus reducing the need for inventory investment and other costs related to many items which were eliminated in the process, and (4) to exchange quality control services at contractors' plants, thereby conserving manpower and reducing quality control costs.

SELECTED COST REDUCTION DATA

1. Property utilization and disposal

GSA is continuously effecting cost reductions and other savings throughout the Government by its promotion of (a) maximum utilization of excess and in-use property to avoid new acquisitions, (b) rehabilitation of personal property to extend its useful life, and (c) sale of surplus property to obtain a maximum return to the Government.

(a) *Personal property* (see chart 1, p. 162).—In fiscal year 1963 over \$475 million worth of personal property was transferred within the Government for further usage, thus minimizing new procurements. The saving is expected to rise to \$500 million in fiscal year 1964 and \$555 million in 1965.

More and more personal property is being rehabilitated each year with its useful life significantly extended. In fiscal year 1963 the cost of such rehabilitated property amounted to approximately \$23 million. However, in fiscal year 1964 and fiscal year 1965 this volume is expected to rise sharply to the levels of \$51 and \$58 million, respectively.

Sales of surplus personal property returned over \$8 million to the Federal Treasury in fiscal year 1963, and this return is expected to rise to \$10.1 million in fiscal year 1964 and \$11 million in fiscal year 1965.

(b) *Real property* (see chart 2, p. 163).—Real property transfers within the Government in fiscal year 1963 aggregated \$145 million, at acquisition cost. This level is expected to dip slightly in fiscal year 1964 and then recover to a new high of \$155 million in fiscal year 1965. Without these types of intragovernmental transfers new constructions and acquisitions would undoubtedly be required.

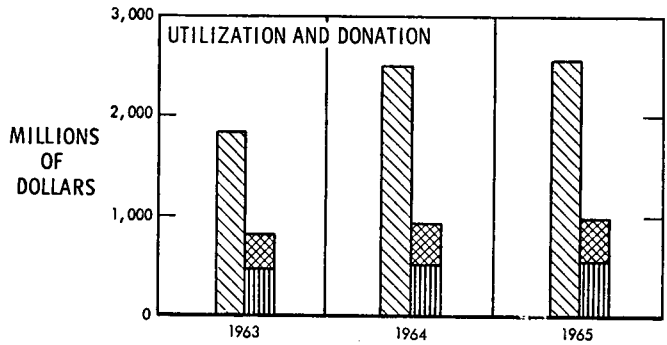
Sales of surplus property returned about \$78 million to the Federal Treasury in fiscal year 1963. The annual return from such sales is expected to reach \$100.4 million in fiscal year 1964 and \$115 million in fiscal year 1965.

2. Manpower utilization program

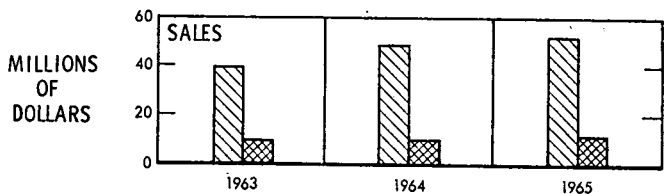
This program in GSA has been designed to assure optimum utilization of its manpower resources through the establishment and use of valid work standards and effective manpower requirements systems which serve as the basis for (a) increasing productivity, (b) reducing costs, (c) evaluating employee and group performance, and (d) determining current and future manpower requirements. The program which was activated in December 1962 moved into high gear in May 1963, with the initiation of 15 manpower utilization studies covering all major program areas in the GSA's central and region 3 offices located in Washington.

Thirteen of these studies have been completed and staffing requirements determined by relating the work standards established to the projected program workload. In each of the areas studied additional capacity was identified. The results of these studies brought about substantial increases in productivity which have been reflected in significant reductions in the unit costs of several program areas. In one area of GSA's Federal Supply Service the net result was a reduction in unit cost of approximately 26 percent which was achieved by increasing the annual program goals originally projected for fiscal year 1964.

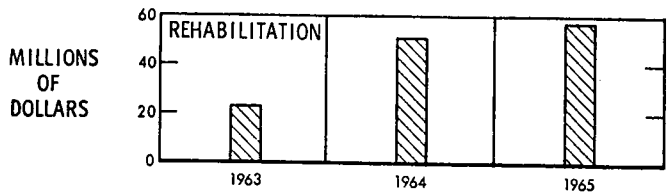
CHART 1
UTILIZATION, DISPOSAL AND REHABILITATION
PERSONAL PROPERTY
(ACQUISITION COST - EXCEPT WHERE INDICATED)
(\$ MILLIONS)



SUBJECT TO GSA SCREENING	1,828.4	2,500.00	2,500.0
UTILIZATION TRANSFERS	475.1	500.00	555.0
DONATIONS	343.8	400.0	415.0



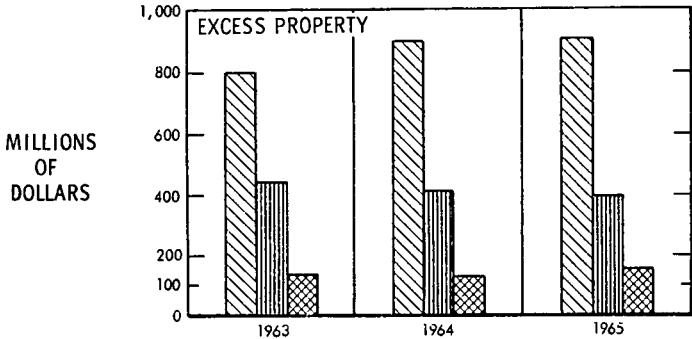
SALES (ACQ. COST - USABLE PROPERTY)	39.5	49.0	53.0
SALES (PROCEEDS)	8.2	10.1	11.0






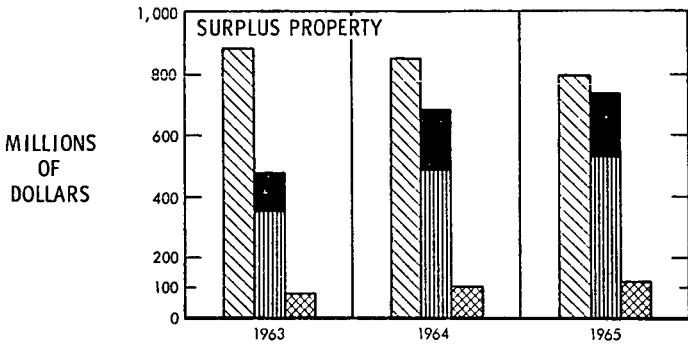
PROPERTY REHABILITATED	22.9	51.0	58.0
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CHART 2

UTILIZATION AND DISPOSAL – REAL PROPERTY
(ACQUISITION COST – EXCEPT WHERE INDICATED)
(\$ MILLIONS)



 EXCESS REPORTED DURING YEAR	801	850	910
 EXCESS ON HAND AT END OF YEAR	442	415	400
 UTILIZATION TRANSFERS	145	140	155



 SURPLUS PROPERTIES ON HAND AT END OF YEAR	879	850	800
 SALES (ACQUISITION COST)	360	480	530
 OTHER DISPOSALS (DONATIONS, ETC.)	122	200	205
 SALES (SELLING PRICE)	77.8	100.4	115.0

In addition, the studies indicated a surplus staffing capability of at least 16 percent based upon authorized employment levels.

In summary, these initial studies identified approximately 100 positions as surplus which resulted in appropriate actions to abolish vacancies, take advantage of the increased employee productivity by increasing the annual program goals, reassignment of personnel to areas where manpower shortages exist, and, to the extent necessary, plan the attainment of recommended staffing levels through attrition. GSA expects to complete further studies to result in the coverage of 61 percent of its nationwide employment by July 1, 1965, and 76 percent by December 31, 1965.

3. Space management and utilization

Periodic physical inspections by GSA of Government-occupied space under its control are conducted to insure efficient use. As a result of these periodic inspections and other surveys during fiscal year 1963, 177,509 square feet of office space were retrieved and reused at an annual value of \$630,359. As a consequence of this more effective utilization through reassignment, 40 leases were either canceled or reduced carrying a rental savings of \$235,126. The same inspection program, through the first half of fiscal year 1964, resulted in regaining and reusing 145,000 square feet of office space valued at \$647,000 annually, and in canceling 32 leases with a rental value of \$92,000.

The GSA program promoting maximum use of existing Government-owned buildings by Government agencies during fiscal year 1963 resulted in the conversion of available warehouse and industrial-type structure space to needed office space of 1,380,000 square feet. The space, valued at \$5,865,000 annually, was converted at a cost of \$16,900,000 with an average amortization period of 4.5 years. Thus the conversion of warehouse and industrial-type structures to office space carrying a higher use factor, resulted in substantial savings to the Government when compared with either new construction or lease acquisition.

To assure that agency requests for additional space are commensurate with need, GSA conducted an audit of agency requirements prior to their submission to BOB. As a result of this technique, agency estimates for fiscal year 1965 were reduced approximately \$2,000,000.

4. GSA's interagency motor pool system

At the close of fiscal year 1963, GSA operated 75 interagency motor pools which included about 27,000 vehicles. By July 1, 1964, an additional 13 pools are expected to be activated. By the end of fiscal year 1965 approximately 100 pools will be operational. Operation of these pools by GSA has resulted in progressively reduced costs per mile every year but one since fiscal year 1957, e.g., the cost per mile in fiscal year 1957 was 8.1 cents; by fiscal year 1963 it had dropped to 7.4 cents. When it is realized that these pool vehicles are driven over 300 million miles each year, the annual savings are significant.

Looking at this picture from a vehicle utilization standpoint, it is estimated that an additional 6,000 to 7,000 vehicles would be required by the participating agencies if GSA pooling was not in effect.

It is estimated that nationwide savings in fiscal year 1964 effected by the GSA interagency motor pool system will aggregate \$11 million. (See chart 3.)

5. Supply management and property accounting surveys

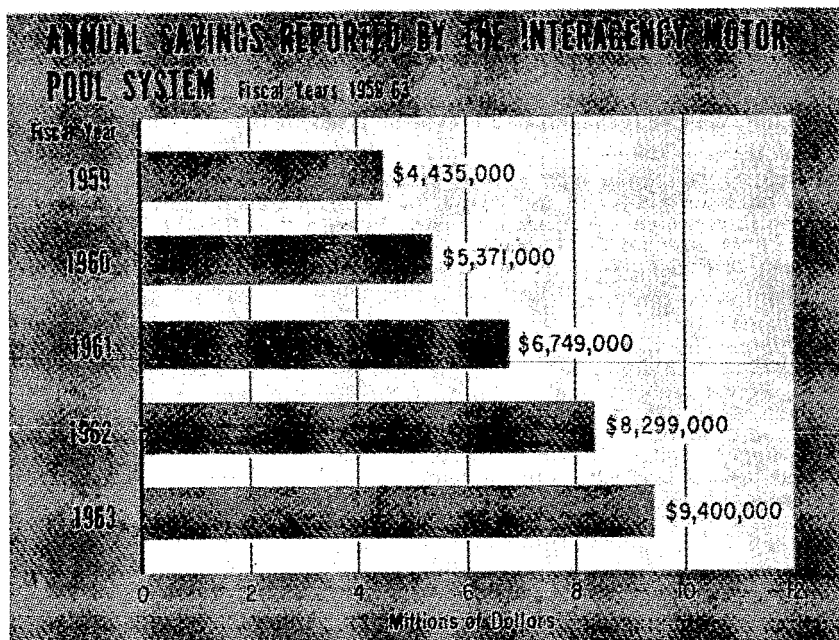
GSA surveys of supply management and property accounting practices of Government agencies evaluates the effectiveness and economy of procurement and supply distribution operations; provides technical guidance and assistance in the installation of improved or simplified supply management and property accounting systems; and strives to eliminate duplication and overlapping within the national supply systems. As a result of surveys conducted during fiscal years 1961, 1962, and 1963, potential economies were identified amounting to \$18 million in inventory investments and \$3.2 million in reduced procurement and supply distribution operating costs.

6. Uniform requisitioning and issue procedures (MILSTRIP/FEDSTRIP)

Much effort by the Government in the past few years has been centered on devising simplified, uniform requisitioning and issue procedures. These efforts initially resulted in the development of the military standard requisitioning and issue procedure (MILSTRIP) which was effective July 1, 1962, and merged 16 military requisitioning systems into one. Subsequently, there was developed a

CHART 3

Fiscal year	Number of pools established (cumulative)	Number of vehicles in pools	Total miles traveled	Miles per vehicle year (average)	Cost per mile
1963.....	75	27, 487	294, 437, 986	11, 801	\$0.074
1962.....	66	24, 359	249, 570, 964	11, 684	.076
1961.....	60	21, 009	222, 952, 981	11, 844	.077
1960.....	56	18, 115	171, 487, 918	11, 691	.075
1959.....	44	13, 847	131, 378, 518	11, 266	.074
1958.....	33	10, 865	87, 943, 026	10, 948	.077
1957.....	22	6, 531	40, 272, 389	9, 519	.081



companion system for applicability among the civil agencies—known as the Federal standard requisitioning and issue procedure (FEDSTRIP) which is compatible with MILSTRIP. Both systems are constructed to utilize automatic data processing equipment to a maximum degree and thus reduce the manual paperwork processing associated with requisitioning and issuing. The MILSTRIP system has proven effective within DOD and has been adopted successfully by GSA in furnishing supply support to military activities. Installation of FEDSTRIP in civil agencies is on a phasing basis and it is expected that all major agencies will have implemented the system within fiscal year 1964.

While it is too early to identify benefits derived from FEDSTRIP, it can be concluded that benefits obtained from MILSTRIP can be expected from FEDSTRIP. One of the major benefits of MILSTRIP is the establishment of a single uniform system within DOD to supplant some 16 systems formerly employed by the military services. Some of the more significant features of the MILSTRIP/FEDSTRIP systems are:

(a) Coded requisition cards are used which obviate manual review, since tests for data are performed mechanically.

(b) Better and faster supply support is obtained through coded common language system which permits use of rapid communication lines and fewer errors.

(c) Significant customer address codes permits analysis by agency, geographic location, etc., more readily.

(d) Uniform priority system provides time frames for prompt service to meet specific urgent needs.

(e) Receiving report documentation provided to customers eliminates need for locally produced documentation.

(f) Supply status is furnished on an exception basis which reduces paperwork and attendant administrative handling.

Inherent in the design of FEDSTRIP is its compatibility with MILSTRIP, including the forms required in the system with the consequences that eventually these systems may be considered as one to be followed by all agencies in obtaining supplies from either GSA or DOD facilities. Some of these additional benefits anticipated are:

(a) A reduced number of supply forms reducing the incidence of obsolescence and administrative workload in forms distribution.

(b) Summarized billing data which will break down totals by appropriation, allotment, cost, project, or other account, based on agency created codes.

(c) A single document reference to be used by customer and supplier, eliminating cross-reference files and expediting replies to inquiries.

(d) Increased reliance on automated processes in this supply system will relieve manpower to perform more essential functions.

7. *Voucher processing*

Using the fiscal year 1957 rate of productivity as a base, GSA's processing of 1.5 million vouchers in fiscal year 1965 will be accomplished by some 389 fewer man-years, on a comparative basis. Priced out at GS-5, this increase in productivity amounts to \$1,828,000. GSA reports that this breakthrough was achieved through a combination of automation and standardization of procedures.

8. *Procurement*

GSA's procurement of supplies and materials on behalf of other agencies has increased from \$1.01 billion in fiscal year 1961 to \$1.26 billion in fiscal year 1963. Procurement in fiscal year 1964 are expected to reach \$1.44 million and rise to \$1.58 million in fiscal year 1965. Savings through this volume procurement are significant and are on the rise. For every dollar spent on volume stores buying GSA estimates a saving of 25 cents; for nonstores, a saving of 15 cents; and for schedule procurement, a saving of 11½ cents. In total, GSA estimates the volume buying savings for all three types will amount to \$273 million in fiscal year 1964 and \$307 million the following fiscal year. (See chart 4, p. 167.)

9. *Communications*

GSA reports that the Federal telecommunications fund (FTF) authorized last year, when fully operational, will save \$23 million annually and improve services to Federal agencies. Service improvements have been achieved by GSA in approximately 45 cities already interconnected. Over 300 additional cities are to be connected by June 30, 1964.

A GSA/DOD procurement arrangement relating to telephone circuit tariffs at Scott Field, Ill., is producing an annual savings approaching \$4 million.

10. *Freight savings*

Through its central traffic management service to civil agencies, GSA estimates annual savings to the Government during fiscal year 1964 aggregating \$13 million. In fiscal year 1965 the saving should rise to \$15 million. (See chart 5, p. 168.)

11. *Records management*

GSA's promotion of efficient record management practices in Federal agencies is aimed to minimize records creation and thus stabilize the level of records in record centers, and reduce the needs in the agencies for filing cabinets and related office space. GSA estimates that \$13.5 has been saved in the last 3 years through agency release of unneeded filing cabinets and office space.

CHART 4

PROCUREMENT VOLUMES AND SAVINGS THROUGH PRICE ECONOMIES

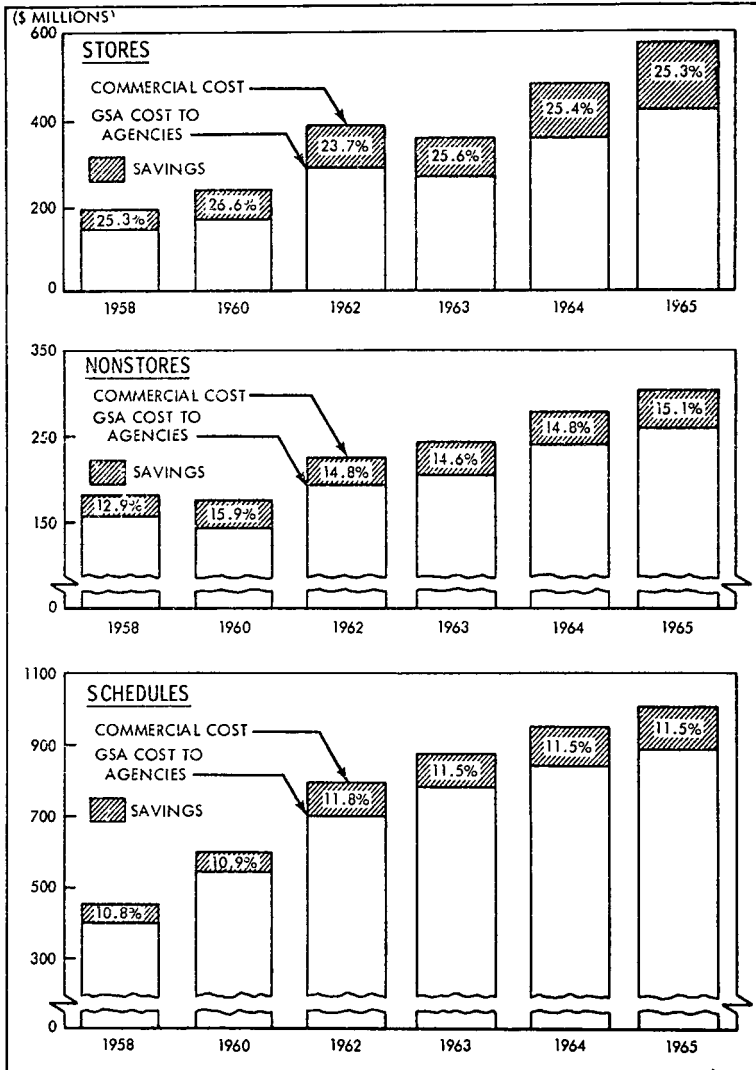
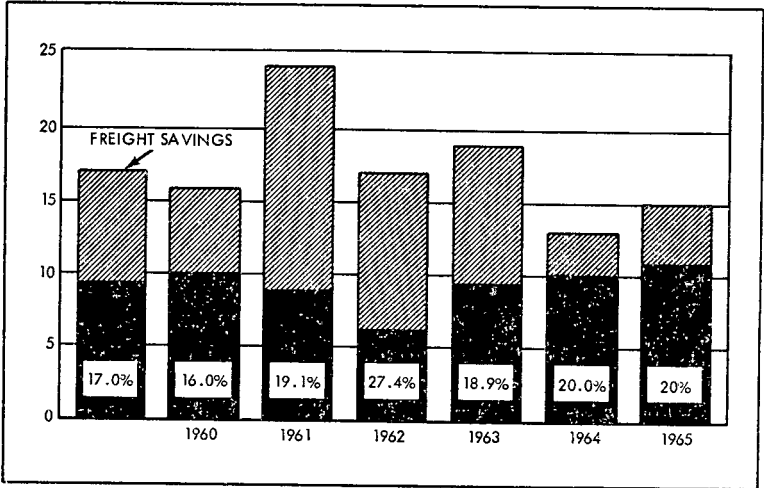


CHART 5

TRANSPORTATION AND COMMUNICATIONS SERVICE



OTHER BUREAU OF MINT

(IN MILLIONS OF DOLLARS)

FISCAL YEAR	OPERATING EXPENSES -- TRANSPORTATION	FREIGHT SAVINGS (EST)		
		OTHER	BUREAU OF MINT	TOTAL
1959	1.6	9.4	7.5	16.9
1960	1.6	10.0	5.7	15.7
1961	1.7	8.9	15.2	24.1
1962	1.7	6.2	10.7	16.9
1963	1.8	9.5	9.5	19.0
1964 EST	2.0	10.0	3.0	13.0
1965 EST	2.2	11.0	4.0	15.0

THE FIGURES INSERTED IN THE CHART BARS REFLECT THE PERCENTAGE EXPENDITURES FOR TRANSPORTATION FUNCTIONS RELATED TO ANNUAL FREIGHT SAVINGS FROM OTHER THAN THE BUREAU OF THE MINT. THERE IS NO DIRECT CORRELATION BETWEEN THE TWO ELEMENTS BUT ARE SHOWN ONLY TO EMPHASIZE THE MAGNITUDE OF SAVINGS IN EXCESS OF TOTAL TRANSPORTATION EXPENSES.

APPENDIX 5

EXECUTIVE OFFICE OF THE PRESIDENT,
BUREAU OF THE BUDGET,
Washington, D.C., June 7, 1963.

Hon. PAUL H. DOUGLAS,
*Chairman, Subcommittee on Defense Procurement, Joint Economic Committee,
U. S. Senate, Washington, D.C.*

DEAR SENATOR DOUGLAS: In furtherance of the discussions held in your office on May 7, I enclose two copies of a memorandum of understanding between the General Services Administration and the Department of Defense, signed by the Administrator of General Services and the Assistant Secretary of Defense (Installations and Logistics).

This memorandum represents agreement on the transfer to the General Services Administration of the procurement and management of all handtool and paint items, except those which are related to "weapons systems." These items will remain the responsibility of the Department of Defense.

The Bureau of the Budget will continue to work with the two agencies on carrying on the administrative steps necessary to effect the transfers in an orderly manner and in accordance with the time schedule referred to in paragraph 3 of the memorandum of understanding.

With this set of issues resolved, the Bureau and the General Services Administration will now proceed to examine GSA's role in relationship to other civilian agency supply systems. By agreement among the Bureau, the Department of Defense, and the General Services Administration, we shall not pursue other possible transfers between Defense and GSA until there has been a full assessment of the effect upon the Defense Supply Agency of this agreement. It seems to us imperative that DSA now have an opportunity to consolidate its responsibilities with respect to the three military departments.

Sincerely,

ELMER B. STATTS, *Deputy Director.*

ASSISTANT SECRETARY OF DEFENSE,
INSTALLATIONS AND LOGISTICS,
Washington, D.C.

MEMORANDUM OF UNDERSTANDING BETWEEN THE GENERAL SERVICES ADMINISTRATION AND THE DEPARTMENT OF DEFENSE

Subject: Procurement and management of handtools (FSG-51 and FSC-5210) and paint (FSG-80).

Based upon our thorough consideration and evaluation of all of the facts, data and other information developed during the course of the joint GSA/DOD/BOB study designed to establish an integrated system for procurement and management of the above two commodities, the following understanding between the Department of Defense and the General Services Administration has been consummated:

1. The Department of Defense shall retain responsibility for the procurement and management of all "weapons systems" items; i.e., those items which are subject to continuous redesign or modification during the production phase, or directly related to a weapon when the weapon is essential to a primary operational mission of a military service.

2. The General Services Administration shall assume responsibility for the procurement and management of all other handtool and paint items. With respect to the items for which GSA will have procurement and management responsibility, the following specific operational relationships shall be assumed:

(a) The Department of Defense to be responsible for:

(1) Performing cataloging operations and publishing the DOD section of the Federal Catalog;

(2) Developing and publishing Military Specifications and Standards and revisions and amendments thereto;

(3) Preparing proposed Federal Specifications and Standards and revisions and amendments thereto, as agreed;

- (4) Conducting mobilization planning;
 - (5) Determining general mobilization reserve requirements;
 - (6) Funding applicable costs of mobilization reserve stocks;
 - (7) Determining desired positioning of general mobilization reserve stocks;
 - (8) Performing industrial mobilization planning.
- (b) The General Services Administration to be responsible for:
- (1) Procurement and management;
 - (2) Determining the method of supply necessary to be responsive to military needs;
 - (3) Procurement, on request from a military activity, of any item designated for local purchase;
 - (4) Performing quality control functions for items procured;
 - (5) Developing, in coordination with DOD, and publishing Federal Specifications and Standards and revisions and amendments thereto;
 - (6) With respect to any general mobilization reserve requirements, positioning such stocks in GSA depots as agreed to by the funding Defense agency; maintaining stock accounts for the owning agency; performing or arranging for performance of custodial functions, protection and surveillance of such stocks; rotating "shelf life" item stocks to the extent demand exists. When program changes result in reduction or elimination of mobilization reserves, utilizing the resulting long supply as the first source of supply to meet GSA stock replenishment or direct delivery requirements; reimbursing the owning agency after transfer of ownership to GSA at current GSA cost prices.
 - (7) Performing industrial mobilization planning where necessary on items procured, as requested by DOD.
 - (8) "Buying back" quantities of GSA stock items, or similar items, from military requisitioners to meet GSA stock replenishment needs or for direct delivery to meet other customer requirements, reimbursing the owning agency at current GSA cost prices, less return transportation, after transfer of ownership to GSA or to other customers.

3. Implementation of an understanding with DOD on the above-recommended basis would, of course, entail policy and procedural changes which could be jointly developed by the two agencies. We recommend that such implementation be undertaken immediately and be completed not later than September 30, 1963, with respect to paint (FSG 80), and the previously identified 153 handtool items, and no later than December 31, 1963, with respect to the remaining items which would come to GSA under this recommendation for procurement and management.

This agreement shall not constitute a precedent for the alinement of supply management responsibilities of GSA and DOD with respect to any other commodity managed by the two agencies.

BERNARD L. BOUTIN,
Administrator of General Services.

THOMAS D. MORRIS,
Assistant Secretary of Defense (Installations and Logistics).

JUNE 20, 1963.

Mr. ELMER B. STAATS,
*Deputy Director, Bureau of the Budget,
Executive Office Building, Washington, D.C.*

DEAR MR. STAATS: I am in receipt of your letter of June 7, 1963, and the enclosed memorandum of understanding between the GSA and DOD concerning the procurement of handtools and paint.

On the surface, it appears to me that a fair and reasonable solution to the problem has been charted and all parties are to be commended on it.

Your suggestion that DSA be given a period of time in which to consolidate its responsibilities is meritorious and the same reasoning applies to GSA. This is consistent with the thought behind recommendation No. 4 of our report of October 1960.

I expect, however, that you will also present to the subcommittee within the 6 months' period agreed upon at our meeting on May 6, 1963, at least a plan for the orderly development of a Federal supply system as contemplated by the Federal Property and Administrative Services Act of 1949.

Faithfully yours,

PAUL H. DOUGLAS, *Chairman.*

MEMORANDUM FOR THE ASSISTANT SECRETARY OF DEFENSE (INSTALLATIONS AND LOGISTICS) AND THE ADMINISTRATOR OF GENERAL SERVICES

SUBJECT: AGREEMENT BETWEEN DOD AND GSA GOVERNING SUPPLY MANAGEMENT RELATIONSHIPS

1. Attached is a proposed agreement covering the subject which has been worked out between our respective representatives.

2. Essentially, the agreement is designed to eliminate avoidable duplication between DSA and FSS in performance of supply management responsibilities pertaining to civil agency and Defense requirements for personal property.

3. It recognizes the essentiality of each agency maintaining separate supply management capability and provides for the fitting together of those separate capabilities in a coordinated Government-wide supply system.

4. Key terms used in the agreement are defined for the sake of clarity and the principles governing our coordinate operations are set forth. The agreement provides for FSS assumption of Government-wide supply management responsibilities for groups, classes, or items selected under criteria established by the agreement and for DSA assumption of supply management responsibility for Defense requirements determined under the same criteria. Provision is included for DSA assumption of Government-wide supply management responsibility for selected groups, classes, or items under stated circumstances. Adequate safeguards are incorporated to insure that the responsibilities of DSA and FSS to insure effective and economical support of Defense and civil agencies are fully discharged. To this end, the agreement accepts the need for Defense management of certain items which are also managed by the Federal Supply Service for civil agencies.

5. Express provision is made for cross-utilization of facilities, capabilities, and services where such action will promote economy and efficiency of supply support to Defense and civil agencies.

6. The criteria embodied in the agreement under which assignment of supply management responsibility as between DSA and GSA will be determined is limited to those groups, classes, or items which now are or hereafter may be assigned within DOD for integrated management by DSA.

7. The agreement includes an understanding that GSA's total supply management capabilities will be available to DOD in times of national emergency and that GSA will honor the Defense priority system in peacetime.

8. The agreement recites the method by which supply management responsibilities assigned thereunder will be implemented and expresses the intention of the parties that the assignment determinations thereunder will fix the management responsibilities of DSA and GSA, as between themselves, for a minimum period of 5 years.

9. It is proposed to proceed with a test of the commodity management criteria set forth in the proposed agreement. This test will call for actual joint application of the criteria to certain groups, classes, or items to be jointly selected by DSA and FSS. The test will be initiated immediately following your approval of this memorandum and will be expedited to completion at the earliest possible date. The agreement is subject to such modification of criteria or other terms as the test may show to be necessary or desirable and is therefore not binding on either parties except for the conduct of the test. All such modifications as prove to be necessary or desirable will be incorporated and the agreement in final form presented for your formal acceptance at that time.

10. We consider that the principles underlying this agreement are sound. The agreement, including the criteria and other terms embodied in it if proved to be feasible in practical application, could represent a fulfillment of the obligation of DOD and GSA to Joint Economic Committee Chairman Douglas to develop

a plan for a Government-wide supply system, which was the subject of his recent reminder letter, dated December 19, 1963.

A. T. MCNAMARA,
Director, Defense Supply Agency.

JANUARY 10, 1964.
Approved:

THOMAS D. MORRIS,
Assistant Secretary of Defense (I. & L.).

JANUARY 13, 1964.

JOHN M. MCGEE,
Acting Commissioner, Federal Supply Service.

JANUARY 9, 1964.
Approved:

BERNARD L. BOUTIN,
Administrator of General Services.

JANUARY 10, 1964.

JANUARY 3, 1964.

AGREEMENT BETWEEN GSA AND DOD GOVERNING SUPPLY MANAGEMENT
RELATIONSHIPS

This agreement is entered into between the Department of Defense and the General Services Administration in furtherance of the principle of providing for the Federal Government an efficient and economical Government-wide system for the procurement and supply of personal property and nonpersonal service, eliminating unnecessary overlapping and duplication within the Government's supply system, and to establish a sound and continuing basis for assignment of responsibility for management of commodities determined to be susceptible to integrated management within the Department of Defense and those susceptible to integrated management within the Federal Government as a whole.

It is hereby agreed that—

1. The maintenance of centralized supply management capability by the Defense Supply Agency within the Department of Defense as an integral part of the military supply system and by the Federal Supply Service within the General Services Administration as a source of supply for all executive agencies is essential to the performance of the basic statutory responsibilities and missions of their respective parent agencies; and

2. The supply management capabilities of each of the respective agencies can, through cooperative arrangements, successfully be fitted together to form a coordinated supply system for the Federal Government, with clearly defined responsibilities of each component, and with sufficient control concerning assigned responsibilities retained by each to assure successful performance of basic missions.

3. *Definitions:* Key terms used herein are defined for the purposes of this agreement as follows:

(a) *Supply services* within the scope of this agreement include:

- (1) Preparation and maintenance of specifications.
- (2) Preparation of supply catalogs.
- (3) Coordination of standardization activities.
- (4) Determination of method of supply.
- (5) Development of arrangements for supply support.
- (6) Computation of inventory replenishment requirements.
- (7) Purchasing.
- (8) Provisioning for the commodities concerned; if required.
- (9) Stock control.
- (10) Mobilization planning.
- (11) Receipt.
- (12) Storage.
- (13) Issue.
- (14) Contract administration services.

(b) *Integrated supply management.*—The performance by a separately organized agency of supply services in support of other agencies.

(c) *Centralized supply management.*—Performance or supervision by a single agency of the complete range of supply services.

(d) *Centralized inventory management.*—Maintenance and control of commodity inventories for distribution to eligible users.

(e) *Centralized purchasing*.—Establishment by a central supply manager or other agency of centrally controlled procurement activities as sources of supply for commodities which are delivered directly from producer to user.

(f) *Decentralized commodities*.—Commodities authorized by the central supply manager for procurement by using agencies, through direct placement of orders on commercial supply sources, including supply schedules negotiated by a central supply manager.

(g) *Support of decentralized commodities*.—Arrangements made by the central supply manager to obtain commodities authorized for local procurement when a using activity is unable to procure for itself.

(h) *Primary Federal Supply Service group or class*.—A Federal supply group or class which is assigned, on the basis of agreed criteria, as a group or class for management by the Federal Supply Service for both civil agency and Defense users. This does not require that every item within the group or class qualify under the agreed criteria for assignment to the Federal Supply Service, but that the number of items not so qualifying be sufficiently small to permit them to be segregated under the exception procedures provided for in paragraph 10.

(i) *Primary Defense Supply Agency group or class*.—A Federal supply group or class which is assigned, on the basis of agreed criteria, as a group or class for management by the Defense Supply Agency for Defense users, subject to the exception procedures cited in (h) above. Certain primary Defense Supply Agency groups or classes may be assigned, by agreement, for both Defense and civil agency users.

(j) *Split management classes*.—Federal supply classes which do not qualify as primary Federal Supply Service or primary Defense Supply Agency classes.

4. (a) The following classes of items within classes are not within the scope of the provisions of paragraph 9 of this agreement, except as provided in subparagraph (b) below:

(1) Classes of items which have not been designated within DOD on the date of this agreement for integrated management within DOD;

(2) Items within classes which have been retained on the date of this agreement for management by each of the military services under DOD-approved coding criteria; and

(3) Items within classes which have been retained for management by Federal civil agencies.

(b) The provisions of this agreement shall apply to any additional groups or classes of items which may hereafter be determined to be susceptible to integrated management within DOD and shall become effective as to such additional groups or classes of items upon their management classification.

5. (a) It is the primary mission of—

(1) The integrated military supply management system assigned to the Defense Supply Agency to provide supply support to organized military units, and

(2) The Federal Supply Service to support the common supply requirements of executive agencies.

(b) These different purposes provide a sound basis for differentiation of the respective supply management assignments of the Federal Supply Service and the Defense Supply Agency.

(c) For their intended purposes and for support of their respective users, both DSA and FSS have access to managerial talent and systems; each is responsible for supply management requirements of sufficient magnitude to realize the economies of scale.

(d) Supply requirements common to both military and civilian agencies can, under certain circumstances, be met by assignment of centralized supply management responsibilities or selected supply services for Government-wide support of certain groups, classes, subclasses, or individual items to either FSS or DSA.

6. The intent of the statutory supply responsibilities vested in the General Services Administrator and the Secretary of Defense can best be realized by DOD and GSA observance of the following principles:

(a) The Defense Supply Agency is responsible for insuring maximum responsiveness and economy in the supply of all Defense-used commodities not retained for management by the military services and, in the discharge of this responsibility, will make maximum use of the supply management capabilities of the Federal Supply Service, consistent with the requirements of military readiness.

(b) The Federal Supply Service, in discharging its responsibility to provide for the Government an economical and efficient system for the procurement and supply of personal property and nonpersonal services with "due regard to the program activities of the agencies concerned," accepts the necessity for retention of control within the Department of Defense of supply services essential to the conduct of military missions.

(c) The Defense Supply Agency will furnish supply management services to all Federal agencies under conditions specified elsewhere herein.

(d) Where utilization by each agency of the specialized capabilities and facilities of the other will promote increased responsiveness to the needs of civil agency and Defense users and economy and efficiency for the Government as a whole, certain supply management services may be retained by a military or civilian agency or assigned by the central supply manager to another agency. It is agreed, however, that DSA and FSS shall continue to strive to work out mutually satisfactory arrangements for full coordination in performance of specification, cataloging, and standardization functions. Supply services which may be retained by or assigned to other agencies include:

(1) *Preparation and maintenance of specification.*—In the case of supplies for civil agency use, this function may be performed by the central supply manager or assigned by such manager by agreement to another agency; for Defense-used commodities, final responsibility is retained by the military services.

(2) *Cataloging and coordination of standardization actions.*—For civil agencies, coordination of these functions is a responsibility of the central supply manager; for Defense Department components, this responsibility is retained by the Department of Defense for all commodities used by it.

(3) *Contract administration services.*—Assignment of management responsibility for this function, within the Department of Defense, which includes quality control, is now under study by that Department. For purposes of this agreement, responsibility for this function will remain with the contracting agency.

(4) *Purchasing support.*—Use by each agency of the purchasing capabilities of the other, particularly where both agencies draw upon the same commercial or industrial sources.

(5) *Warehousing support.*—Use by each of the warehousing facilities of the other where facilities of both agencies are located or would need to be located in the same geographic areas.

(e) The role of the Federal Supply Service as coordinator between the Defense Supply Agency and civil agencies and the role of the Defense Supply Agency as coordinator between the Federal Supply Service and the military services is intended to insure consistency of policy and procedures governing centralized supply management, particularly with respect to changing existing arrangements or establishing new arrangements, but these coordinating responsibilities do not preclude direct day-to-day communications between supply sources and users within the purview of established supply support arrangements.

7. The Federal Supply Service shall assume centralized supply management responsibility for all Federal users for those commodity groups or classes which are designated by agreement, in accord with criteria set forth in paragraph 9, below, as primary GSA classes, except for those services listed in paragraph 6 for retention by the Department of Defense.

8. The Defense Supply Agency will perform centralized supply management services for Defense users, only, for those commodity groups or classes which are designated as primary Defense Supply Agency classes, except that the Defense Supply Agency agrees to consider support of all Federal agencies for groups and classes in the following commodity areas: Subsistence, clothing and textiles, medical, petroleum, and electronic supplies. Agreement with respect to the classes to be supported and the range of supply services to be furnished is contingent upon (a) determination by DSA that support of civil agencies will not impair DSA's capability to support military units in war or peace and will not significantly increase DSA's operating costs or inventory investment; (b) determination by GSA that the establishment of a separate capability by the Federal Supply Service to support Federal civil agencies would result in significantly higher costs to the government than support by the Defense Supply Agency;

and (c) completion by GSA of arrangements for extension of integrated supply management for the commodity areas in question to the Federal civil agencies. Should the General Services Administration determine, with respect to any other classes or items, that Government-wide economies and improved responsiveness can be gained through support of all Federal agencies by the Defense Supply Agency, it shall make a recommendation to that effect to the Department of Defense.

9. In split management classes, civil agency and Defense users will look to the Federal Supply Services and the Defense Supply Agency, respectively, for coordination of supply management actions affecting items in such classes and for support, where necessary, of decentralized items. Subgroups or items within such classes which are designated for management by the Federal Supply Service, will be referred for central purchasing or centralized inventory management by the Federal Supply Service.

10. The Federal Supply Service and the Defense Supply Agency will undertake a joint review of all groups, classes, or items designated within the Department of Defense as susceptible to integrated management, with view to agreeing upon assignment of supply management responsibilities as between the Defense Supply Agency and the Federal Supply Service to be determined under the following general criteria applied first, by groups, second, by class, third by subclass or family relationships, and last, by individual item. Both parties to this agreement affirm that the criteria set forth below as governing the assignment of management to DSA constitute a sound basis for the exercise of the statutory authority vested in Secretary of Defense to except the Department of Defense for actions taken by the Administrator of the General Services Administration under Federal Property and Administrative Services Act, as amended; and that the criteria governing assignment to the Federal Supply Service are applicable to all Defense-used items not qualifying for such exception.

(a) DSA MANAGED**FSS MANAGED**

Groups, classes, or items used within the Department of Defense principally or exclusively by the operating forces.

Groups, classes, or items which are produced by commercial sources for general consumption by the civilian economy and which are used by both civil agencies and the Department of Defense.

Items specially designed for use by military forces in the field or for installation on board ship or on military aircraft.

Items used principally or exclusively throughout the Federal Government in support of administrative functions.

Items essential to the operational readiness of weapon systems and military designed equipment.

Items used principally or exclusively throughout the Federal Government in the operation and maintenance of fixed administrative facilities.

Materials, parts, and ancillary equipment principally or exclusively used within the Department of Defense in the maintenance, rebuild, modification, or manufacture of equipment or materiel specially designed for use by the operating forces; and items subject to return for depot level repair.

Items used principally or exclusively in support of commercial-designed equipment used by both civil agencies and the Department of Defense.

Health, safety, and survival items essential to personnel in the performance of military missions.

Items used for the convenience and recreation of personnel.

(b) In the conduct of the joint review, first priority shall be given to the identification of commodity groups or classes which, because they consist predominantly of items satisfying the appropriate criteria set forth in subparagraph (a) above, can be assigned as primary Federal Supply Service or Defense Supply Agency groups or classes. Upon such designation, the group or classes shall not be subject to further review except that either agency may, upon its

own initiative, propose specific items for excepted assignment and shall justify its proposal by a clear demonstration that the proposed exception satisfies the criteria agreed upon for the proposed assignment.

(c) Where group or class assignments cannot be agreed upon, the joint review will then identify families of items within classes which satisfy the criteria for management assignment to the Federal Supply Service or the Defense Supply Agency. Items within such families which are clearly identifiable with special military users may be proposed and justified as item exceptions under the conditions set forth above for exceptions to group or class assignments.

(d) All remaining items will be subject to individual joint review under the agreed criteria.

(e) It is recognized that by reason of scope and diversity of usage, certain items will, to some degree, satisfy both sets of criteria set forth above. In such instances, exhaustive item-by-item analysis will be made with a view to assigning central supply management responsibility for such items to the Federal Supply Service wherever consistent with assured support of military forces. Where the Secretary of Defense determines that military considerations require central management within the Department of Defense of items which are also widely used by civil agencies, management by both the Defense Supply Agency and the Federal Supply Service will be accepted under the terms of this agreement. Centralized purchasing of such commodities will be assigned to the Federal Supply Service in those instances where the Federal Supply Service purchases the items centrally for civil agencies.

(f) Within the commodity ranges assigned to each agency for centralized supply management, the joint review will explore all opportunities for full utilization by each agency of the specialized functional capabilities and facilities of the other pursuant to subparagraph 6(d), above.

(g) The Defense Supply Agency and the Federal Supply Service will retain final responsibility for insuring the availability of items in split management classes which are decentralized for local procurement by Defense and civil agency users, respectively. Where Federal supply schedules exist for Defense-used decentralized items in these classes, the Department of Defense will use such schedules as preferred sources of supply. The Federal Supply Service agrees that centralized inventory management will not be provided for these items of Defense users without prior coordination with Defense Supply Agency. The Department of Defense, in turn, agrees that it will not provide centralized inventory management for decentralized items supported in whole or in part by Federal supply schedules without prior coordination with the General Services Administration.

(h) It is recognized that, under existing circumstances, items in split management classes otherwise satisfying criteria for assignment to the Federal Supply Service may not qualify for centralized inventory management under policies and criteria established by it. In these instances, the Federal Supply Service will so advise the Defense Supply Agency, identifying those items which it is prepared to support through Federal supply schedules. With respect to such of those items which the Defense Supply Agency thereafter determines to require central inventory management to assure support of military forces, the Defense Supply Agency may assume centralized inventory management. With respect to such of those items as Defense Supply Agency determines do not require centralized inventory management within the Department of Defense, final responsibility for assuring availability to support military forces remains in the Defense Supply Agency, subject to the provisions of subparagraph (g), above.

11. The General Services Administration will honor the Defense uniform materiel issue priority system during times of peace, and, in the event of national emergency, the full supply management capabilities, facilities and resources of the Federal Supply Service will be available for the supply support of the Department of Defense and, upon determination by the President that such control is required in the interests of national security, will come under the operational control of the Secretary of Defense. The Department of Defense will take this assurance into account in formulating emergency plans and, to this end, jointly with the General Services Administration, will insure that their respective systems and procedures are so coordinated as to facilitate effective support of military emergencies.

12. Upon approval of this agreement, the Defense Supply Agency and the Federal Supply Service will proceed to formulate findings and determinations with respect to commodity and functional assignments consistent with the provisions of this agreement, including the identification of related funds, personnel, property, and records. Supply management assignments resulting from these actions will be made effective upon completion of all findings, but actual management transfers will be so scheduled as to insure adequate dissemination of information and direction to subordinate and supported elements as necessary to effect orderly transfer and realignment actions.

13. The parties to this agreement anticipate that these determinations will stabilize their respective management assignments for a period of at least five years as between themselves, except for the review of additional supply classes determined to be susceptible to integrated management, as provided for in paragraph 4(b) above. Provision will be made for protection of the integrity of agreed management assignments through coordination of procedures with respect to standardization actions and the replacement of items managed by each agency by new items entering the supply system.

Revised: January 7, 1964.

